DIA MET MINERALS LTD.

Annual Report 1999-2000

In the past year, rough diamonds from the Ekati™ Diamond Mine achieved an average price of US$168.05 a carat, among the very highest for any kimberlite mine in the world.

The bulk of the value of Ekati™ rough is in white, commercial goods. Typically, when polished these are I+ in colour and SI1+ in clarity. They are easily sold and are in high demand in the North American market.

BUSINESS DESCRIPTION

Dia Met Minerals Ltd. is a mineral exploration and development company that trades on the Toronto and American stock exchanges. The Company is engaged principally in the exploration for and development of diamond deposits. Dia Met is part-owner of the world-class Ekati™ Diamond Mine, Canada's first and only diamond mine. Located in the Lac de Gras area of the Northwest Territories, the mine went into production in October 1998. In the year ended January 31, 2000, the mine produced 2.51 million carats of diamonds, most of which were sold in Antwerp, Belgium.

Dia Met has a 29 per cent interest in the Core Zone joint venture of the Ekati™ mine. BHP Diamonds Inc., a wholly-owned subsidiary of the Broken Hill Proprietary Company Limited of Australia, has a 51 per cent interest and is the mine operator. Two geologists, Charles Fipke and Stewart Blusson, have 10 per cent each. Dia Met also has a 7.8 per cent interest in the Buffer Zone surrounding and adjacent to the Ekati™ Diamond Mine.

Dia Met was founded in 1983 by Mr. Fipke, Dia Met's Honorary Chairman, to finance the systematic exploration for diamonds in Canada. Dia Met continues to investigate new exploration opportunities identified by its management. In addition to its investment in the Ekati™ mine, the Company carries out extensive global exploration, including heavy mineral sampling and airborne and ground geophysics in the Canadian North, Africa, Greenland and Finland.

CONTENTS

The Annual General Meeting of shareholders will be held at 10:00 a.m. on Wednesday, August 30, 2000, in the ballroom at the Coast Capri Hotel, 1171 Harvey Avenue, Kelowna, B.C., Canada, V1Y 6E8.

ON THE COVER:
Award winning designer Andrew Costen's jewelry. The platinum necklace contains 10 Ekati™ diamonds varying in weight from 4.11 carats to 1.06 carats and is valued at C$270,000. The earring, also set in platinum, contains a 2.16 carat stone and is valued at C$40,000. The jewelry set was designed by Costen at the request of the joint venture partners to showcase Ekati™'s glittering jewels.

DIA MET
MINERALS LTD.
www.diamet.com

Dia Met

is actively working to:

- **Strengthen management and the Board of Directors**
- **Manage its substantial cashflow wisely to build long-term value and growth**
- **Develop and implement a strategic growth plan**

With this mind, the Company has in the past year:

- **Announced outstanding financial results reflecting its part-ownership in Canada's first and only diamond mine**
- **Appointed a new CEO, Mr. James Rothwell, with strong financial and mining credentials to replace Mr. James Eccott who retires later this year**
- **Appointed a new Chairman of the Board**
- **Added the names of two experienced and independent candidates to the proxy circular for election as directors at the upcoming Annual General Meeting**
- **Engaged an independent consultancy to conduct a financial market survey to solicit the views of shareholders**
- **Instituted a policy of balancing risk with potential return in its exploration strategy and implemented a budgeting process to control costs**
- **Refocused its exploration effort on the Canadian North where it discovered the Ekati™ Diamond Mine**
- **Begun assessing intermediate and advanced exploration projects, particularly in Canada, against specific hurdle rates**

Exquisite gems: An 18-inch platinum snake chain with a handmade platinum pendant. The pendant diamond is 1.57 carats, colour G, and clarity VS2. The earrings, also in platinum, are both a six-claw antique look in stud style with locking backs. Both earring stones are 0 .55 carats, colour F and clarity VS1. The set was manufactured for Ekati™ by Jon Phillips of Vancouver and is valued at $43,000.

Work underway at night on the Panda Pit, the first kimberlite pipe to be mined in Ekati™'s multi-pipe mine plan.

Ekati™ is now the largest commercial supplier of rough diamonds to the global market by value outside of De Beers' Central Selling Organisation.

The first full year of production at Dia Met's part-owned Ekati™ Diamond Mine, saw a dramatic improvement in the Company's financial performance:

Financial highlights

	(Year ended Jan. 31, 2000)	(Year ended Jan. 31, 1999)
Revenue	**$102.0 million**	$5.6 million
Earnings before taxes	**$74.5 million**	$5.8 million loss
After tax profit	**$47.5 million***	$6.5 million loss
Basic earnings per share	**$1.56***	$0.21 loss per share
Free cashflow per share	**$2.52**	$3.81 deficiency
Cashflow per share from Ekati	**$3.08**	0
Return on total assets	**18%**	0.5% loss
Ekati™ gross margin	**70%**	61%
Ekati™ pre tax profit margin	**62%**	46%
Obligation for Ekati™	**$204.8 million**	$276.2 million

***Reflects a one-time positive adjustment of $7.3 million, or $0.24 per share, for future income tax assets earned before fiscal 2000.**

Eight years after the discovery of the first kimberlite pipe at Point Lake and just three years after construction began, Dia Met Minerals Ltd.'s 29 per cent-owned Ekati™ Diamond Mine completed its first full fiscal year of operation on January 31, 2000.

By any measure, fiscal 2000 was a gem.

Ekati™ has quickly established its credentials as a world-class asset with margins that are closer to those of Silicon Valley than the Canadian North. Dia Met catapulted to Canada's 9th most profitable mining company and the nation's 163rd most profitable public company in fiscal 2000, according to *The Globe & Mail's Report On Business* magazine. That puts Dia Met ahead of such well-regarded corporate giants as Teck Corp., Shaw Communications, SNC-Lavalin Group and Mitel Corp.

Ekati™ produced a total of 2.51 million carats of diamonds for fiscal 2000 and the joint venture sold nearly 90 per-cent of it — or 2.24 million carats — at an average price of US$168.05 per carat. That's almost 30 per cent above the US$130 per carat price upon which the 1997 Ekati™ feasibility study was based, and reflects both the high quality of the Ekati™ stones as well as buoyant global demand.

Dia Met's net earnings for fiscal 2000 reached $47.5 million or $1.56 per basic share. The bottom-line results — which included a one-time positive tax adjustment of $7.3 million or $0.24 per share — topped analyst estimates, and compared with a prior-year net loss of $6.5 million or $0.21 loss per share.

Dia Met's share of diamond sales from Ekati™ reached $161.2 million for the year. After deducting $13.2 million in amortization and depreciation charges, and $48.2 million for cost of sales — which encompasses stripping, mining, processing, overhead, administration, sorting, and selling costs — Dia Met's equity in earnings from Ekati™ totalled $99.8 million for the year.

That's up from just $1.7 million for fiscal 1999, when the first quarter of commercial production from Ekati™ yielded sales of 68,500 carats at an average price of US$123.62 per carat, on total output of 0.42 million carats.

In addition to our exceptional financial performance, there were many other positive developments at Dia Met in fiscal 2000 and in the first half of fiscal 2001. In February 1999, Dia Met and its joint venture partner, BHP Diamonds Inc., completed construction of a new sorting and valuation facility at Yellowknife airport. The facility is the first of its kind in North America, and was built on schedule, within budget and with no safety or environmental incidents.

In June 1999, the Ekati™ joint venture unveiled its new crystal Maple Leaf logo at the Third International Gemological Symposium in San Diego. The logo, which is the keystone of our worldwide marketing campaign to launch Ekati™ as a reliable and dependable source of high-quality Canadian diamonds, has received a very positive market reception.

In July 1999, the joint venture finalized an agreement granting De Beers the rights to market 35 per cent of the run-of-mine production from Ekati™ for a three-year term. The joint venture partners retain global marketing rights to the remaining 65 per cent of production, enabling us to gain crucial marketing expertise while building a distinctive presence for Ekati™ diamonds worldwide.

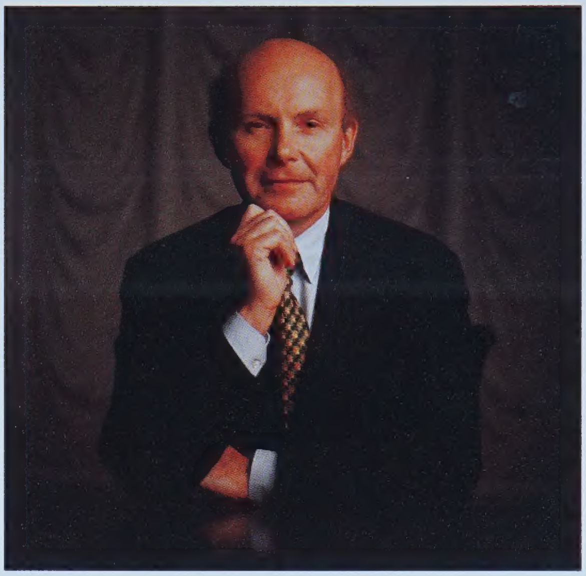
Subsequent to the fiscal 2000 year end, Dia Met announced in February 2000 that Mr. Charles Fipke, the Company's Chairman and largest shareholder since inception, had agreed to transfer ownership of substantially all of his Dia Met shares to his estranged wife, under terms of a divorce settlement. Mrs. Marlene Fipke has since become Dia Met's largest shareholder, with approximately 24 per cent of the Company's outstanding shares.

Dia Met also formed a special committee of the Company's Board of Directors to assess the merits and feasibility of consolidating the Company's Class A and Class B shares into a single class. Dia Met retained Newcrest Capital Inc. of Toronto, and Torys, a Toronto and New York-based law firm, to provide advice on relevant issues, and continues to explore this initiative.

Dia Met also announced in March the appointment of Mr. Peter Atkinson as non-executive interim Chairman of the Company's Board of Directors, succeeding Mr. Fipke, who resigned. And in June 2000, Dia Met announced the appointment of Mr. James Rothwell, formerly President of BHP Diamonds, as the Company's new President and Chief Executive Officer.

Mr. Rothwell, who will assume his new position on August 15, 2000, two weeks prior to Dia Met's Annual General Meeting, will replace Mr. James Eccott, 67, who is retiring after serving as Dia Met's President and CEO since 1992.

Chairman's Letter



The recent and gratifying financial results for the first full year of operations of the Ekati™ mine signal Dia Met's transformation from a junior exploration company to a significant Canadian enterprise with substantial cash flows and a rapidly improving balance sheet.

In an effort to enhance shareholder value, the Board has undertaken a review and analysis of the major impediments to the stock price which should be more reflective of the sparkling Ekati™ results and the future prospects of the Company. The major conclusions are as follows:

1. The management team and board need to be strengthened and a serious strategic plan should be completed and implemented.

2. The dual class share structure is not acceptable to many potential shareholders, particularly large institutions.

3. The volume of shares traded on a daily, weekly or annual basis is too low. This phenomenon discourages potential shareholders because they have no assurance that they can acquire or dispose of substantial positions at predictable prices.

The appointment of Jim Rothwell as President and CEO and as a director of the Company is the first important step in strengthening the Dia Met management team and positioning it to take the Company to its next level of accomplishment. Jim's background, experience and unabashed enthusiasm for the diamond industry are a great tonic. We are delighted to have been able to secure leadership of his calibre for Dia Met. Almost coincident with Jim's appointment, the board invited Tim Price, Chairman of Trilon Financial Corporation and Eric Schwitzer, Senior Vice President, Strategic Development of Westcoast Energy Inc. to add their names to the proxy circular for election as directors at the upcoming Annual General Meeting. This followed advice from Chuck Fipke and Jim Eccott that they did not wish to stand for re-election.

Points 2 and 3 above are currently being addressed by way of the previously announced share consolidation proposal which, if approved, will see the Class A and Class B shares merged, on an appropriate ratio, into one class of common share. This will remove the dual class share impediment and improve share liquidity. Numerous meetings with large institutional and private shareholders have occurred in an effort to reach a consensus and to obtain comfort that the necessary 75 per cent voting support for the share consolidation can be achieved. Our efforts in this regard will continue and the proposal will be placed before shareholders for approval when shareholder support justifies such action.

Jim Eccott's contributions as President, CEO and Director of Dia Met have been enormous. He has faced the daily task of managing idiosyncratic personalities, forging a strong BHP relationship, building ties with the mining and investment community and fostering the development of the Company's management team. Through it all he earned the respect of shareholders, regulators and our joint venture partners for balanced press releases, rigorous reporting and a willingness to communicate with all constituencies in order to see through the development of the Dia Met dream. One could not have asked for a more devoted leader during this critical phase of the Company's development. We wish for Jim a well-earned and wonderful retirement.

Chuck Fipke's retirement from the board marks another transition for Dia Met. As founder of the Company and the person responsible for Ekati™ and the Canadian diamond industry generally, we all share an enormous sense of gratitude to him. But with his business interests no longer directly aligned with Dia Met it was appropriate that he relinquish his board seat.

Thank you Jim and Chuck for your devotion to Dia Met.

Finally, I want to acknowledge the efforts and achievements of Dia Met's management and staff. The past year has been difficult for them as the board grappled with CEO succession and a number of issues which could only cause insecurity for our employees. Through it all they acted professionally and courteously. I have noted, in particular, very steady and creditable performances and accomplishments on the part of our vice-presidents, Ray Ashley and Gerald Prosalendis, and the Company's Controller Chris Ryder. Under Jim Rothwell's leadership, I have every confidence that they will flourish.

P.Y. Atkinson.

Peter Y. Atkinson
Chairman of the Board

Report to Shareholders and Employees

On behalf of the Board of Directors I am pleased to present the Annual Report and the financial statements of Dia Met for the fiscal year ending January 31, 2000.

This has been a pivotal year in the evolution of our company. Seventeen years after Dia Met was formed, and a decade after our founder first staked the Lac de Gras area of the Northwest Territories, we have completed a highly successful first full fiscal year of operations at our 29 per cent-owned Ekati™ Diamond Mine.

This achievement marked the culmination of many years of hard work and dedication by Dia Met and its operating partner, BHP Diamonds Inc., and it was made possible by the support of our stakeholders and the professionalism of our employees. I am proud to have served as President and Chief Executive Officer of Dia Met during this formative chapter of our company's development. And, like other shareholders, I am equally confident and excited about our prospects as we begin a whole new chapter — one that will be led by our newly-appointed President and Chief Executive Officer, Mr. James Rothwell.

In its first full year of operation, Ekati™ more than lived up to its promise as a company-making asset for Dia Met. Ekati™ produced 2.51 million carats of diamonds for fiscal 2000, and the joint venture sold 2.24 million carats at an average price of US$168.05 per carat, nearly 30 per cent above the price upon which the 1997 Ekati™ feasibility study was based.

This confirms the high quality and strong global demand for our stones, and it underscores the success of our initial marketing efforts. In fiscal 2000, the Ekati™ joint venture unveiled its new crystal Maple Leaf logo, which is the keystone of our worldwide marketing campaign to position Ekati™ as a reliable source of high-quality Canadian diamonds. As the sales results show, the response to date has been excellent. Make no mistake, Ekati™ has put both Dia Met — and Canada itself — on the map of the world's leading diamond producers.

Dia Met is no longer a development-stage company that explores for diamonds. With Ekati™ in its second successful year of production, Dia Met now ranks among Canada's 10 most profitable mining companies, and among the 200 most profitable public companies in Canada. This is not likely to change anytime soon. Based strictly on the current known reserves at Ekati™, Dia Met's earnings stream will extend some two decades into the future, giving us a firm foundation upon which to build our future corporate growth strategy.

As you know, Dia Met has to date adopted an aggressive approach to reducing our debt obligations. By applying 100 per cent of our share of net after-tax cash flows toward debt repayment, we reduced our outstanding debt obligations for Ekati™ by $71.5 million or nearly 26 per cent during fiscal 2000, to $204.8 million. Based on current debt repayment rates and market conditions, Dia Met would eliminate all of its remaining debt obligations in the next two years.

It's true that our deliberate and methodical focus on debt repayment has to some extent constrained our ability to pursue a more aggressive growth strategy or dividend policy during these initial years of production from Ekati™. Some shareholders and analysts may have preferred that we take a different path. However, I remain confident that we have chosen a course that is in the best long-term interests of all shareholders. Our increasingly healthy balance sheet will enable Dia Met to consider a wide variety of options to enhance shareholder value as Mr. Rothwell and his team undergo the strategic planning process in the months ahead.

Of course, there were many other important developments at Dia Met during fiscal 2000. In February 1999, the joint venture completed construction of a new sorting and valuation facility in Yellowknife that ranks as the first of its kind in North America. And in July 1999, the partners finalized an agreement granting De Beers the rights to market 35 per cent of the run-of-mine

production from Ekati™ for a three-year term.

Subsequent to the fiscal year end, Dia Met announced in February 2000 that Mr. Charles Fipke, the Company's founder, Chairman and largest shareholder since inception, had agreed to transfer ownership of substantially all of his Dia Met shares to his estranged wife, under terms of a divorce settlement. Mrs. Marlene Fipke has since become Dia Met's largest shareholder.

In an effort to accommodate the concerns of some institutional shareholders, the Board of Directors subsequently formed a special committee to assess the merits and feasibility of consolidating the Company's Class A and Class B shares. Dia Met continues to pursue this initiative.

Dia Met also announced in March 2000 the appointment of Mr. Peter Atkinson as non-executive interim Chairman of the Company's Board of Directors, succeeding Mr. Fipke, who resigned. And in June 2000, Dia Met announced the appointment of Mr. Rothwell, the former President of BHP Diamonds, as our new President and Chief Executive Officer.

Mr. Rothwell will assume his new position on August 15, 2000, two weeks prior to our Company's Annual General Meeting. I look forward to working with Mr. Rothwell during the transition process in the months to come, and to assisting him, whenever needed, in the development of Dia Met's forthcoming strategic growth plan.

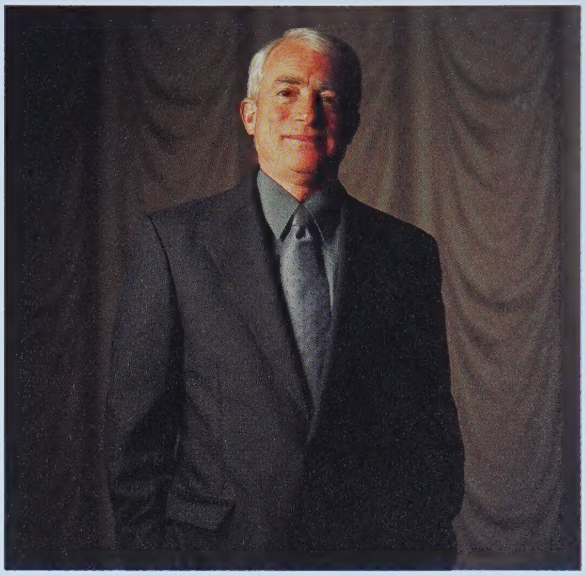
During my term as President I was fortunate to have worked with a group of fellow employees who, through their dedication and hard work, made it possible for Dia Met to reach its current status. Without their help we would not have reached the goal of placing Dia Met in a position to take the next step.

For Dia Met, the future has never looked brighter. I am proud of what we have accomplished together, and I wish to thank all of you for your faith and support during the many years I have been associated with the Company.

On Behalf of the Board

James E. Eccott

James E. Eccott
President and Chief Executive Officer
July 14, 2000



Mr. James Rothwell, formerly President of BHP Diamonds Inc., has been appointed President and Chief Executive Officer of Dia Met. Mr. Rothwell, 51, will replace Mr. James Eccott, 67, who is retiring after serving as Dia Met's President and Chief Executive Officer since 1992. Mr. Rothwell has also joined the Company's Board of Directors.

Mr. Rothwell will assume his position on August 15, 2000.

As President of BHP Diamonds since February 1997, Mr. Rothwell had responsibility for overseeing all diamond activities of The Broken Hill Proprietary Company Limited, Australia's largest natural resource company. This included development and production at the Ekati™ Diamond Mine, as well as all marketing activities for the Ekati™ Diamond Mine joint venture.

Mr. Rothwell provided leadership for BHP's successful entry into the global diamond industry. Specifically, his responsibilities included: overseeing construction of the Ekati™ Diamond Mine, on time and within budget; assembling the company's management team and permanent, 500-plus person workforce; developing and implementing plans to market Ekati™ diamonds globally; and maintaining positive working relationships with governments, aboriginal groups and partners.

Mr. Rothwell was also Senior Vice President, Marketing and Strategic Planning, for BHP Minerals. In this post, he was responsible for customer relations, strategic marketing initiatives, and marketing organizational development for a global division that provided support to business units with annual sales of more than $5 billion. Mr. Rothwell joined BHP Minerals in 1973, and has held a number of other senior management positions with the company in a career that has included assignments in Brazil, the United States, Australia and Canada.

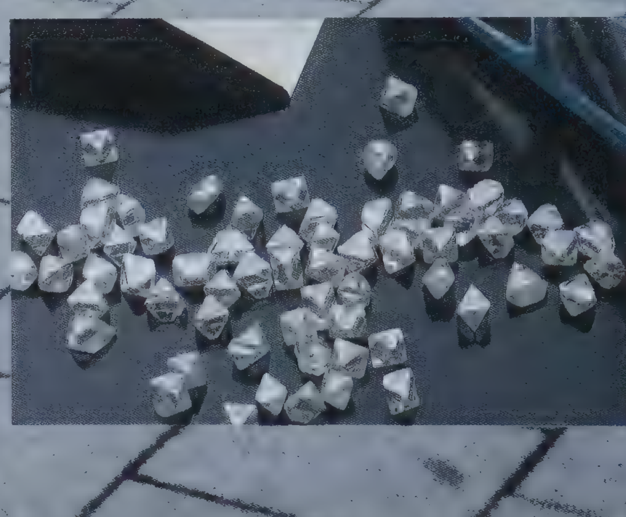
Mr. Rothwell has a BA (Honours) in Economics and an MBA from Stanford University.

ANTWERP'S BUSTLING DIAMOND DISTRICT

Last fiscal year, Ekati™ produced 2.51 million carats of highest quality rough diamonds for sale mainly in Antwerp, Belgium. The historic city's bustling diamond district is the centre of the global diamond trading business and provides access to clients from all the major manufacturing centres.

Ekati™ has revealed itself as REAL CANADIAN GEM *after only eighteen months in production*

The NWT Diamonds Project, as Ekati™ was first known, was a joint venture formed to explore, develop and mine mineral claims in Canada's remote Northwest Territories. The Canadian government



approved the development of Ekati™ in November 1996 after a comprehensive review by the Federal Environmental Assessment Review Panel. A socio-economic agreement, environmental agreement, fisheries authorization, water licence, land leases and two signed Aboriginal impact and benefit agreements were in place by January 1997.

In the year ended January 31, 2000, the Panda Pit produced 2.51 million carats of diamonds, of which 2.24 million carats were sold at an average price of US$168.05 per carat.

Construction was completed by August 1998, and the mine was brought safely into production — on time and within budget — on October 14, 1998. This was a remarkable achievement given the harsh winter conditions and logistical challenges of mobilizing equipment and supplies in the inhospitable sub-Arctic. Seven years elapsed from the discovery of the first kimberlite pipe at Point Lake to diamond production. The total capital cost of the mine including exploration and its facilities was about $1 billion. BHP Diamonds is the operator of the project.

Ekati™ is about 300 km northeast of the city of Yellowknife within the Lac de Gras watershed at the headwaters of the Coppermine River drainage basin. The region, known as the barrenlands, is north of the treeline and about 200 km south of the Arctic Circle. It is in an area of permafrost, with a shallow active surface layer that thaws during the brief summer.

STRONG SALES AND PRODUCTION

In the year ended January 31, 2000, the Panda Pit produced 2.51 million carats of diamonds, of which 2.24 million carats were sold at an average price of US$168.05 per carat. This compares to production of 424,810 carats and sales of 68,500 in the previous year, at an average price of US$123.62. The price of US$168.05 in fiscal 2000 was 29 per cent higher than the US$130 per carat set out for Panda in the 1997 feasibility study. This mostly reflected the extraordinary high quality of the Ekati™ stones, and more particularly, better colour characteristics and size distribution than predicted by the 1997 feasibility study. Also, a 10 per cent discount was applied to the diamond parcels from the bulk-sampling program after they were independently valued. Healthy global economic conditions and buoyant consumer demand made a smaller contribution to stronger prices.

EKATI™ GEMS
(From left to right) Princess, 5.57 carats, H, SI1, US$35,230; Princess, 3.45 carats, fancy yellow, VVS2, US$51,750; Emerald, 9.07 carats, H, VVS1, US$79,997; Emerald, 3.01 carats, G, VS1, US$20,528.

ENVIRONMENTAL RESPONSIBILITY

Ekati™ underwent the most thorough environmental assessment and regulatory process in the history of Canadian mining outside of the uranium industry. In January 1997, an environmental agreement was reached with the territorial and federal governments. The agreement is legally binding. An Independent Environmental Monitoring Agency was set up to monitor Ekati™. Performance is measured in an annual environmental report. An Operational Environmental Management Plan sets out the framework for meeting internal and external environmental standards.

The over-all environmental objectives are to:

- Measure compliance.
- Determine impacts.
- Test predictions.
- Measure mitigation methods.

In addition, on-going programs at the mine site monitor:

Air quality

This has been monitored since construction began in 1997 using baseline studies and air dispersion models

Ekati™ Diamond Sales

Ekati™ is positioning itself to take advantage of industry developments, which include increased use of branding, the surge in e-commerce and continuing vertical integration.

completed for the 1995 Environmental Impact Statement. To reduce emissions, low sulphur diesel fuel is used in modern, well-tuned equipment. Conserving fuel is a priority and the mine uses a heat recovery system that cuts down on the use of diesel-powered boilers.

Ekati™ underwent the most thorough environmental assessment and regulatory process in the history of Canadian mining outside of the uranium industry.

Aquatic conditions.

Changes in water chemistry and aquatic resources in lakes and streams are monitored. In 1998, the program was refined to assess changes in hydrology, water quality and invertebrate and fish life through to the decommissioning of Ekati™. Climate has been monitored since 1993.

Wildlife.

The effects of mining on wildlife behavior, distribution and movement are tested and mitigating measures implemented. Baseline studies were conducted in 1995 and 1996. Efforts are focused on specific species: caribou, grizzly bears, wolves, wolverines, breeding birds, raptors and loons. Grizzly bears have been collared with radio transmitters, animal movements and behavior have been observed from remote locations, carnivore dens have been located, habitats have been surveyed and bird nesting has been studied. No caribou, bears, wolves or wolverines have been killed since mining activities began in 1991.

Archaeological program.

Practices have been established to protect archaeological resources through monitoring, mitigation, emergency response and employee training. Since 1997, Global Positioning System co-ordinates have been collected for archaeological sites allowing them to be located even when covered with snow.

SOCIO-ECONOMIC COMMITMENT

On December 31, 1999, a total of 516 people worked at Ekati™. The mine is the largest private sector employer in the Northwest Territories. Based on 1999 data, it is estimated Ekati™ contributed 18 per cent to the gross domestic product of the Northwest Territories and Nunavut. The mine has created stable, well paying jobs that have benefited local communities.

AWARD WINNING MINE

The Ekati™ Diamond Mine has received recognition for its outstanding achievements as Canada's first and only diamond mine, among them:

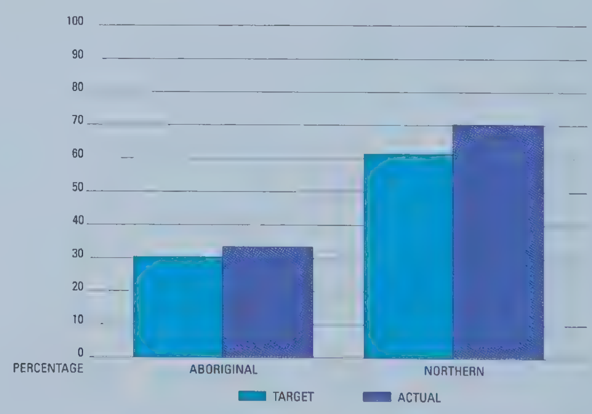
- The Canadian Council of Canadian Engineers recognized BHP and H.A. Simons Inc. with the "National Award for Exceptional Engineering Achievement" for the largest mining construction project ever undertaken in the Canadian sub-Arctic.

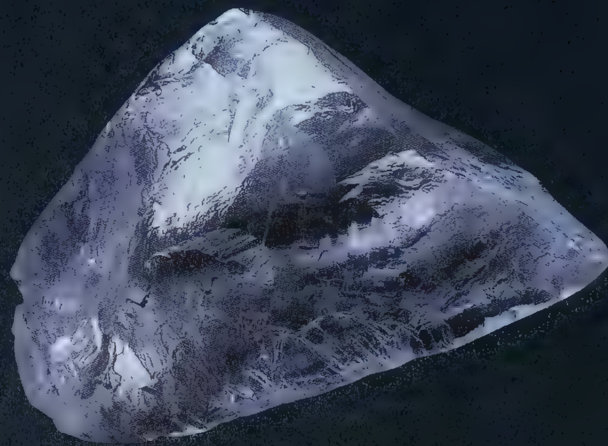
- The Consulting Engineers of Alberta (CEA) recognized EBA Engineering Consultants Ltd. with the "Award of Excellence — Resource Development" and the "Award of Merit — Technology Innovation" for the Long Lake frozen core dam design. The innovative design allowed the operator and EBA to effectively use one condition readily available in the North — cold winters.

- The CEA recognized A.D. Williams Engineering Inc. with the "Award of Merit — Resource Development" and the "Award of Merit — Technological Innovation" for the design of the Ekati™ Diamond Mine permament camp and truck maintenance facility.

- Ekati™'s Mine Rescue Team won "Best Team" in the 1999 WCB-St. John Ambulance first aid competition for the Northwest Territories.

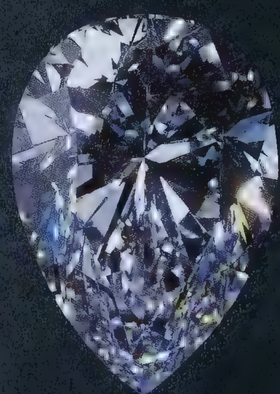
HIRING TARGETS





ARCTIC ICE
A 25-carat rough diamond mined from Ekati™. The rough stone was cut and polished into the diamond shown below.

FLAWLESS JEWEL.
A 10.22 carat pear-shaped cut and polished diamond from Ekati™. Colour D, clarity IF. The jewel is valued at us$511,000.



GIA COLOUR SCALE

COLOURLESS			NEAR COLOURLESS				FAINT			VERY LIGHT								LIGHT			
D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z

GIA CLARITY SCALE

		VERY VERY SLIGHTLY INCLUDED		VERY SLIGHTLY INCLUDED		SLIGHTLY INCLUDED		INCLUDED		
FLAWLESS	INTERNALLY FLAWLESS	VVS_1	VVS_2	VS_1	VS_2	SI_1	SI_2	I_1	I_2	I_3

Strong demand for EKATI™'S EXQUISITE DIAMONDS *has seen a healthy market debut*

Aside from De Beers, there are very few sources of diamonds in the world that can offer significant volumes of high quality rough diamonds on a reliable basis over the long term. Ekati™ is now, by value, the largest commercial supplier of diamonds to the

Dia Met donated a cut and polished Ekati™ diamond to a foundation raising funds for upgrading Kelowna General Hospital's critical care unit. The 1.66 carat polished stone was cut from a rough diamond weighing 3.78 carats and mined in the winter of 1998. Its colour was F and clarity VS2. The Dia Met Diamond sold for $22,000 at auction (pictured above).

global market apart from De Beers' Central Selling Organisation.

Most sales through Antwerp are made to a group of core clients, carefully selected for their experience, financial capacity and their compatibility with the Ekati™ business plan.

EKATI™ PRODUCT

Ekati™ production has a number of very favourable characteristics. It includes a wide range of sizes and qualities of gem diamonds, making it less vulnerable to market fluctuations which can affect certain categories. In the past fiscal year, rough diamonds from the Panda Pit achieved an average of US$168.05 a carat in the open market, among the highest for any kimberlite mine in the world.

Most of the value is in size and colour ranges that are commercially attractive and in high demand. This allows manufacturers to buy rough, work with it and quickly return for more. There are few yellow stones, the gem component being mainly white and light brown. Also, the light brown stones often polish into white colours, something that could not have been predicted until production was underway and the stones were being worked.

The bulk of the value is in white, commercial goods. Typically, when polished these are I+ in colour and SI1+ in clarity. They are easily sold and are in high demand in the North American market.

MARKETING CHANNELS

Ekati™ is somewhat unique as a large producer of rough diamonds because it is outside De Beers. There is no state or government equity in the mine. As a mine operating in a first world country, there are no controls over how the rough diamonds are marketed other than those that apply to mineral commodities in general. A government valuation is also required.

BHP Diamonds has a five-year agreement to act as sales agent for the mine's production. The marketing program involves three separate channels. In January 2000, sales of 35 per cent of Ekati™'s run-of-mine production began to De Beers under the terms of a three-year agreement. From the start, there was a serious concern about how to deal with De Beers and at the same time comply with anti-trust regulations in the United States and Canada. This concern resulted in a limit on how much production could be sold to De Beers, and a requirement that the people and information involved with those sales be kept separate from other distribution channels.

EKATI™ DIAMONDS

A WARM FRONT HAS JUST COME IN FROM CANADA

(Opposite and overleaf) An advertising campaign to showcase Ekati™ diamonds was launched last year. The program, aimed at diamond dealers, polishers, cutters and jewelry manufacturers, consisted of a series of four print advertisements which were run in industry trade publications, such as *Mazal U'Bracha, GemKey Magazine, American Jewelry Manufacturer, Diamond World* and *Canadian Jeweller*. The advertisements reinforced key Ekati™ messages including the production's high quality, stable supply and the mine's commitment to the environment.

The remaining 65 per cent of Ekati™ production is sold through a sales office in Antwerp, Belgium, which was established by BHP Diamonds in 1998. Antwerp is currently the largest market for rough diamond trading and offers access to clients from all the major manufacturing centres.

ANTWERP SALES OFFICE

Most sales through Antwerp are made to a group of core clients, carefully selected for their experience, financial capacity and their compatibility with the Ekati™ business plan. Each core customer receives a distinct assortment of rough diamonds on a five-week cycle. There is also a program referred to as "window" sales. This involves selling smaller, more defined assortments to manufacturers. The main purpose of this program is to monitor and test prices and current market conditions.

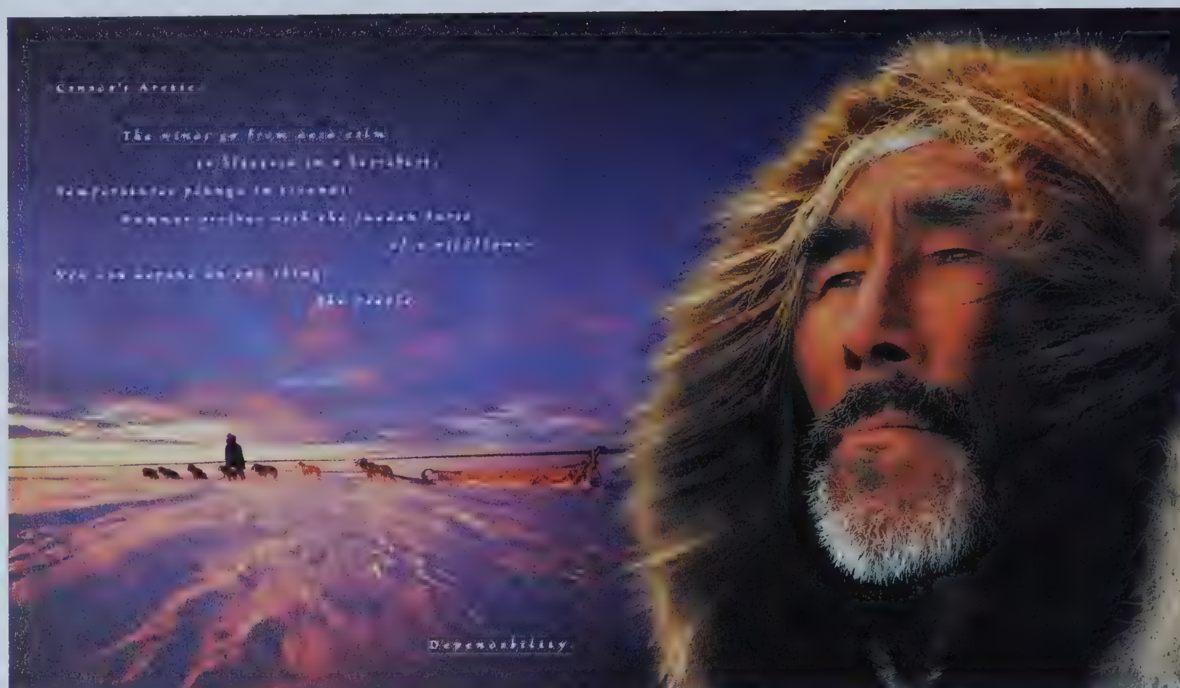
The Antwerp office was able to attract key diamond professionals and to benefit from sound consulting advice from IDH Diamonds, an Antwerp-based diamond dealer. Sorting, preparation of assortments for sale, and pricing and other terms and conditions of sale have been well received in the market and have established Ekati™ as a credible supplier of rough diamonds to the industry.

NWT MANUFACTURERS

A third marketing channel delivers rough to manufacturers


EKATI


A warm front has just come in from Canada
They are time frozen. Promises kept. Natural diamonds from the most exciting source on this earth
EKATI



The beauty of natural diamonds from a new source of light. The constancy of the people the land has shaped. Ekati™ Diamonds. A warm front has just come in from Canada.

EKATI DIAMONDS

How do you picture a new source of pure beauty? With a few choice words. Pristine. Dependable. Trustworthy. Natural. Ekati™ Diamonds. A warm front has just come in from Canada.

EKATI DIAMONDS

in the Northwest Territories. Two manufacturing facilities are in operation and one additional facility is under construction. About 10 per cent of the value of Ekati™ production will be made available to these facilities. The prices and terms and conditions for these sales are consistent with sales to other customers.

The maple leaf logo forms the keystone of a worldwide marketing plan to launch Ekati™ as a reliable source of high quality diamonds.

It is important that these manufacturing operations are commercially competitive and viable in their own right. The supply of rough was negotiated with the manufacturers, in cooperation with government, but without the need for regulation. Given time, and an economic framework for sustainable development, there is little doubt that a small, but important, diamond manufacturing and jewelry manufacturing industry will develop in the North. It will not be based on large volumes, but on the skilled use of a fine, high quality resource.

SORTING AND VALUATION FACILITY

Ekati™ also operates a sorting and valuation facility in Yellowknife. This facility is used for initial sizing and preparing the product for valuation by government appointed valuers. Valuations occur at five-week intervals and are required prior to moving the product outside the Northwest Territories. Sales to local manufacturers have also begun from this facility.

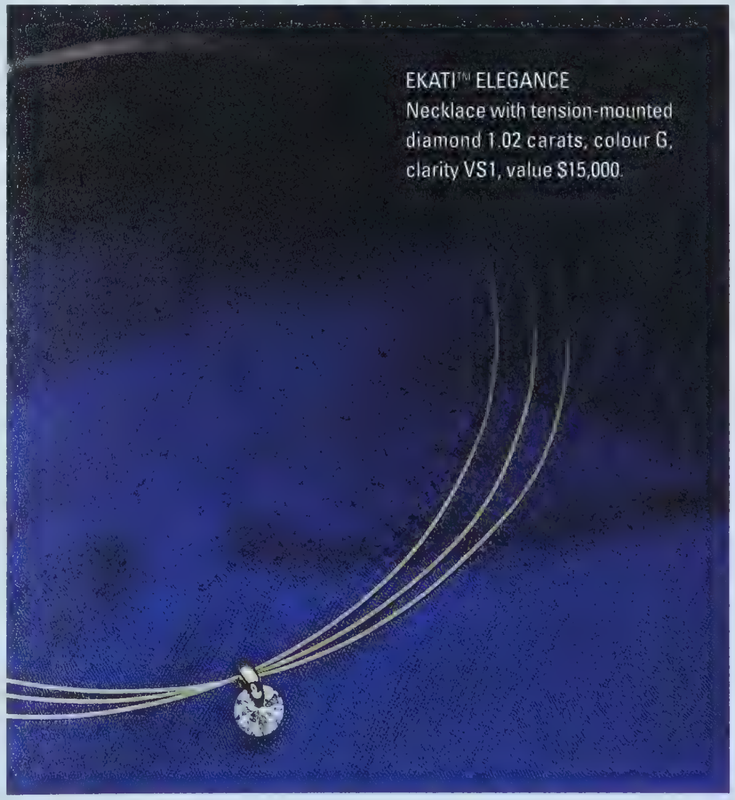
ADVERTISING

The marketing program will evolve to respond to changes now underway in the diamond industry. Ekati™ is positioning itself to take advantage of some of these larger industry developments, which include increased use of branding, the surge in e-commerce and continuing vertical integration.

The crystal maple leaf was chosen as an internationally recognized Canadian symbol to represent diamonds from Ekati™. In June 1999, the logo was unveiled at the Third International Gemological Symposium in San Diego. The maple leaf logo forms the keystone of a worldwide marketing plan to launch Ekati™ as a reliable and dependable source of high quality diamonds.

The fact that Ekati™ provides an identifiable source of production, and the favourable image of the Canadian Arctic, presents excellent opportunities. The option to create a quality brand for Ekati™, a registered trademark, is being considered.

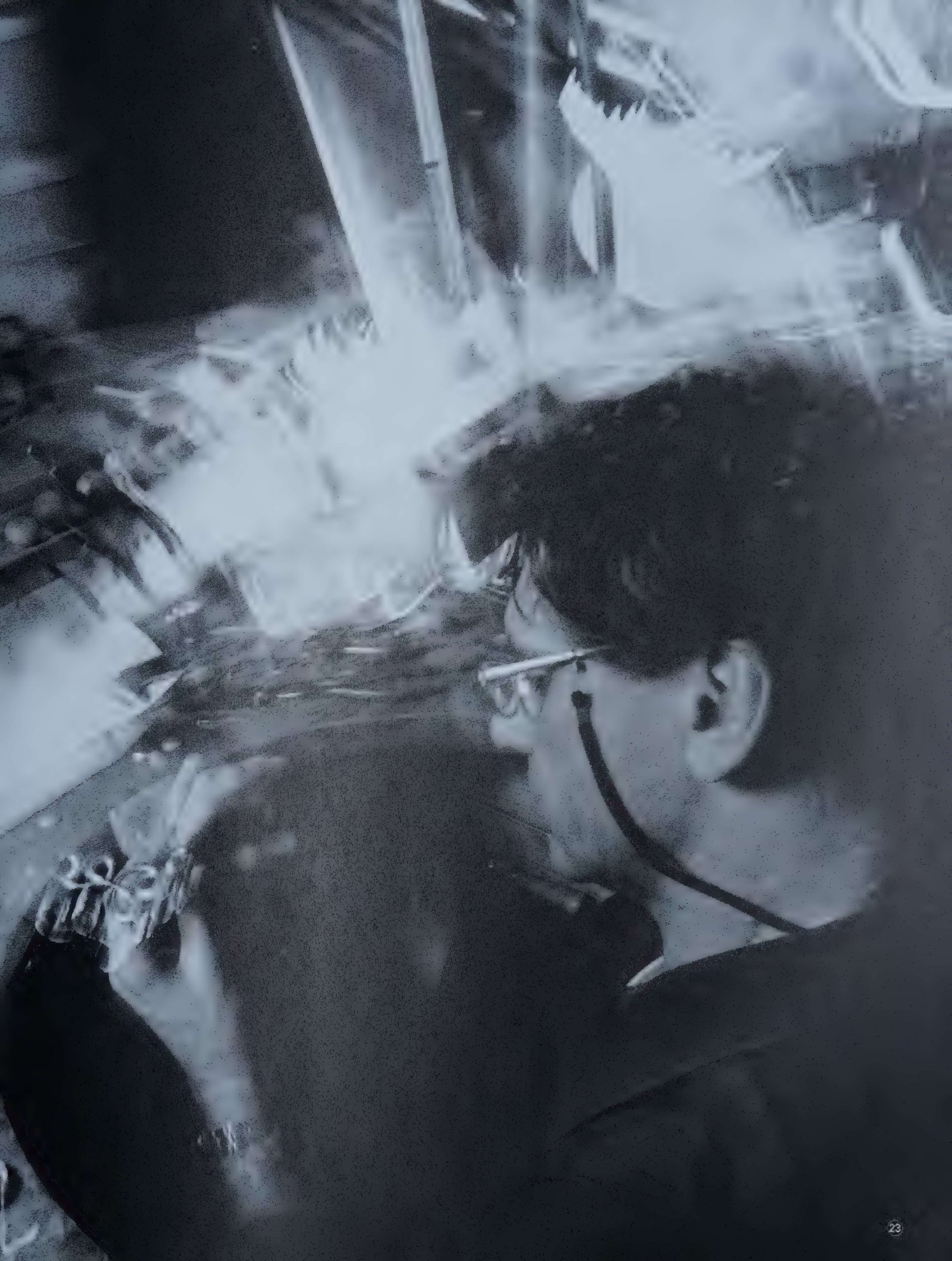
As a first step, the mine began an advertising campaign last year aimed at diamond dealers, polishers, cutters and jewelry manufacturers. Print advertisements were run in industry trade publications, including *Mazal U Bracha*, *GemKey Magazine*, *National Jeweler*, *Diamond World* and *Canadian Jeweller*. Affiliations to distribute branded Ekati™ diamonds through retail outlets and the Internet are also being considered.



Award winning designer chosen to craft STUNNING EKATI™ JEWELRY *to showcase Panda production*

In the fall of 1999, the Ekati™ joint venture partners asked a number of jewelry designers to submit sketches and proposals for jewelry pieces to showcase

The custom-made flat templates and round curved stakes help Andrew Costen — shown at the workbench of his Vancouver shop — in the creation of his jewelry.



diamonds from the Ekati™ Diamond Mine.

One of those chosen to create his designs — a necklace, a ring and a pair of earrings — was award-winning designer Andrew Costen of Vancouver. Costen proposed making all the pieces from platinum, which he rolls flat to a desired thickness of 0.5 mm. In total, 13 diamonds were used in the three pieces with a combined weight of 23.36 carats.

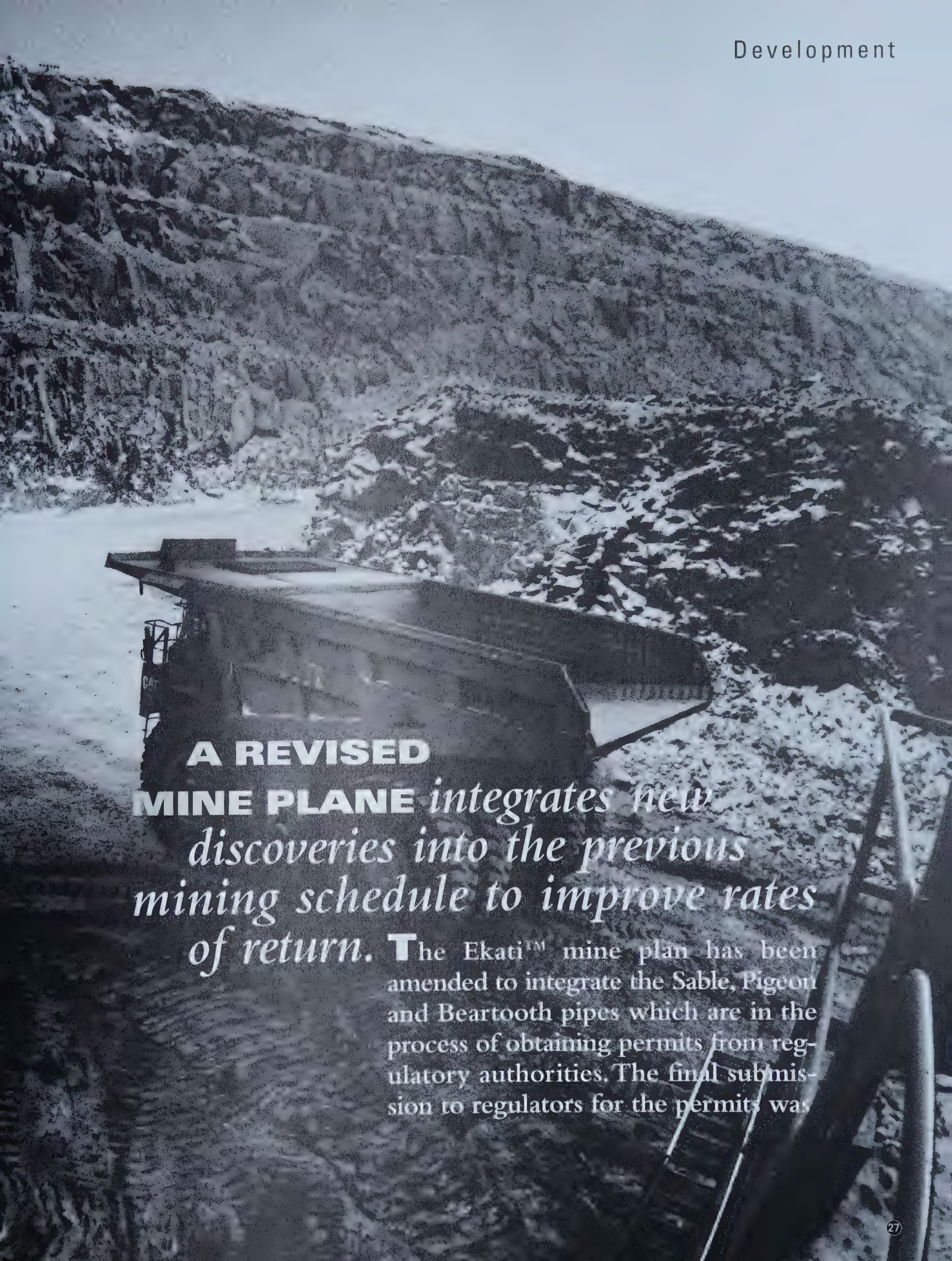
To create the necklace the platinum is cut to the shape of a template placed over the metal to be worked. This forms one section of the necklace.

The shaped pieces are hammered over stakes to create the curved convex shapes (top left). Hammering hardens the platinum. Throughout the process heat from a blowtorch is applied (top right) to soften the metal.

As the pieces are formed, Costen checks the alignment of the diamonds (above left). Once the desired shape is achieved the piece receives an initial polishing, either with a hand-polisher (above right) or with a machine.

The necklace is made in sections (left). Once all the separate pieces are finished they are welded together and the entire necklace receives a final polish. The stones are placed in position in a bezel setting.

THE FINISHED PIECES.
Ring: 2.01 carat (F, VVS1) diamond.
Earrings: 2.15 (G, SI2) and 2.16 (F, VVS1) carat diamonds.
Necklace: 10 stones varying from a 4.11 carat (H, SI1) in front with 2.18 (G, SI1) and 2.19 (F, SI1) carat stones on either side, to a 1.06 carat (G, VS1) stone at the back. The total value of the set is about $400,000.

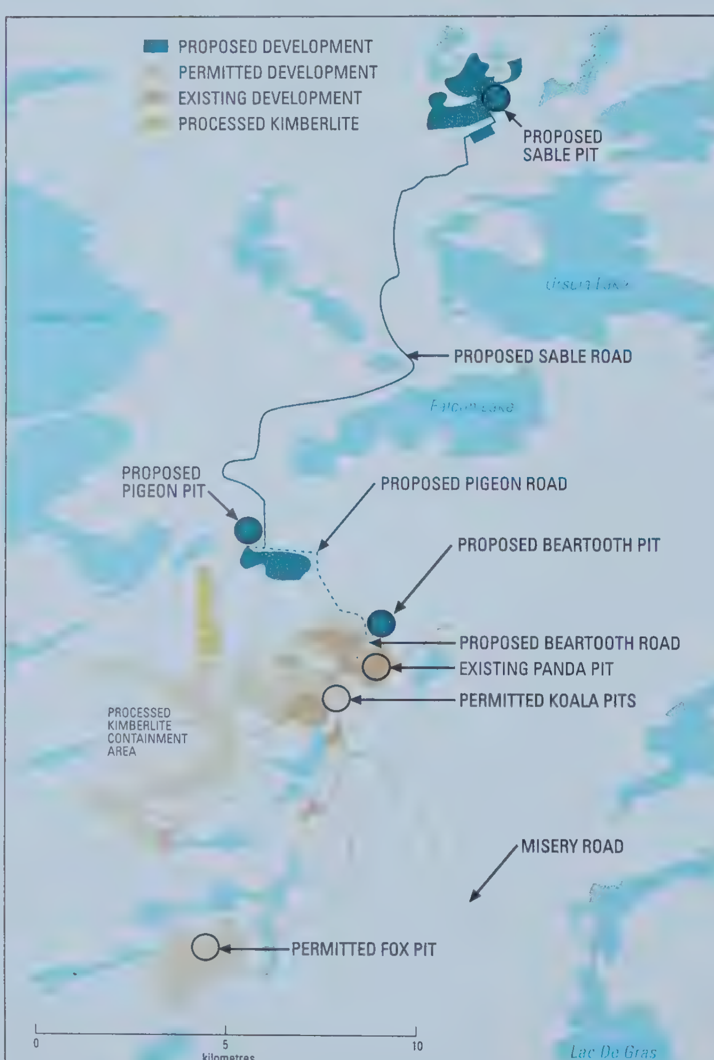


A REVISED MINE PLANE *integrates new discoveries into the previous mining schedule to improve rates of return.* The Ekati™ mine plan has been amended to integrate the Sable, Pigeon and Beartooth pipes which are in the process of obtaining permits from regulatory authorities. The final submission to regulators for the permits was

made in November 1999. One currently permitted pit, Koala North, was not included in the 1997 mine plan.

During the first years of operation, Ekati™ will process 9,000 tonnes of kimberlite ore a day.

During the first years of operation, Ekati™ will process 9,000 tonnes of kimberlite ore a day. In 2007, as ore grade decreases, the processing rate will double to 18,000 tonnes a day. The addition of the new pipes will result in ore being extracted from eight pipes. Six of these pipes (Panda, Koala, Fox, Pigeon, Beartooth and Koala North) are close to the central processing facility, while the other two (Sable and Misery) are more distant.



The Sable, Pigeon and Beartooth pipes will be developed by means of open pit mining methods already in use at Ekati™. All kimberlite will be processed at the Ekati™ process plant and tailings will be disposed of in the Long Lake containment facility. A full site reclamation plan is in place and is reviewed annually.

The Sable Pipe is located beneath Sable Lake about 15 km north of Panda Pit. It will be mined to a depth of 360 metres. About 120.8 million tonnes of waste rock and 12.9 million tonnes of kimberlite ore will be mined. The Pigeon Pipe is 4.5 km northwest of the Panda Pit and lies beneath a layer of overburden rather than a lake. It will be mined to a depth of 200 metres. About 51.2 million tonnes of waste rock and 5.3 million tonnes of ore will be extracted. The Beartooth Pipe lies under Beartooth Lake less than one kilometre northwest of Panda. The pit will be developed to a depth of 155 metres and about 16.8 million tonnes of waste rock and 1.4 million tonnes of kimberlite will be mined.

The revised development schedule is shown opposite:

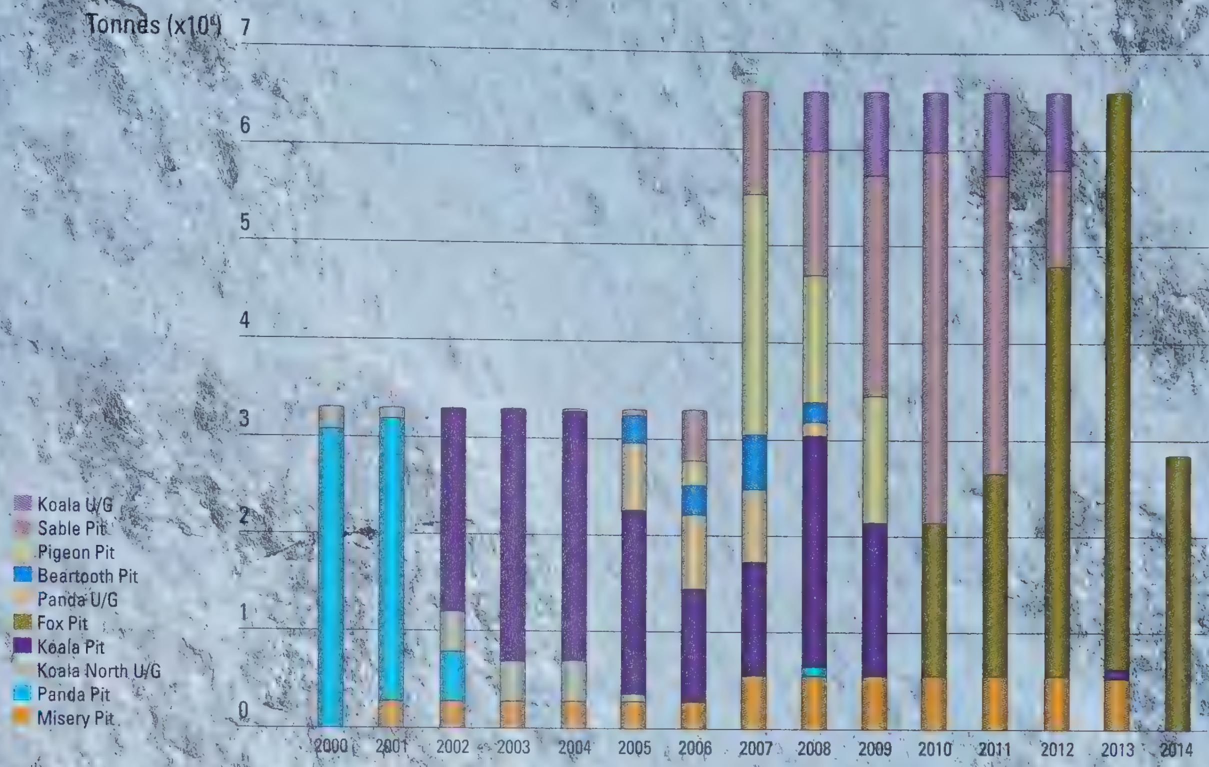
The Sable, Pigeon and Beartooth pipes will be mined in a sequence that maintains plant production and establishes a balance between engineering, processing, safety, economics, grade, diamond value per carat and the overall marketing plan. Lower value pipes are combined with higher value pipes to ensure an adequate return on investment by providing rough diamonds that can be marketed according to the Ekati™ business plan.

Ore movement and pipe sequencing are shown opposite:

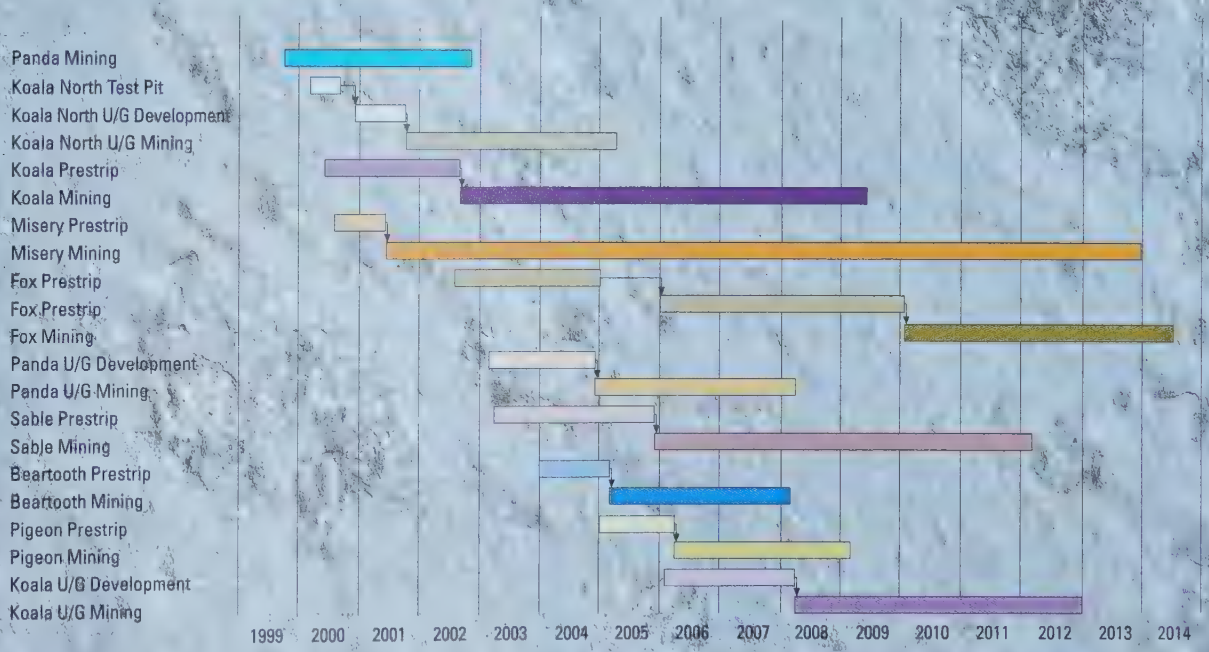
Not mining Sable, Pigeon and Beartooth pipes would reduce the mine life by three years. The plan may be altered by a number of factors including new discoveries and market conditions.

No changes need to be made to the process plant to integrate the new pipes into the mine plan. Good exploration targets remain to be tested on the Ekati™ property, and the discovery of additional economic reserves could result in a further increase in the life of the mine.

Annual Ore Tonnage



Mining Schedule



Life of Mine Plan

	Development	Mining	Completion
Panda	1997	1998	2002
Koala North	2000	2001	2005
Koala	2000	2002	2009
Misery	2000	2001	2013
Fox	2002	2010	2014
Panda U/G	2003	2004	2008
Beartooth	2004	2005	2008
Sable	2003	2005	2012
Pigeon	2005	2006	2009
Koala U/G	2006	2008	2012

SOUTH OF KANGERLUSSUAQ
Conducting geophysical surveys in Greenland.

Ventures will

on three different continents

The systematic, multi-disciplinary approach that led to the discovery of the Ekati™ mine remains at the core of Dia Met's exploration strategy. The Company's efforts are driven by its proprietary techniques and methods. Dia Met is actively seeking opportunities where its technical edge can be put to work

TUK TU CAMP
Staking claims earlier this year on Victoria Island.

for shareholders to add value and establish the Company as a leading diamond producer.

Exploration work is conducted within an over-all framework that is underpinned by four components:

1. Assessing risk and return.

Guidelines have been put in place to evaluate projects for technical, environmental and social risk and to balance these against potential rate of return. This will ensure that projects undertaken are prospective and that they are funded appropriately. These guidelines are continually being re-examined and refined.

2. Renewing efforts in Canada.

The Company is refocusing its efforts on generating projects in Canada. With the largest area of exposed Archaean Craton in the world, a stable political environment and a tradition of mining, Canada remains one of the best places to explore for diamonds. In addition, many of the Company's proprietary methods and techniques are ideally suited to Canada since they were developed in the glaciated terrains of the Canadian Shield.

3. Building on a grassroots exploration strategy.

Dia Met's success with grassroots exploration brought the company to its present position as a partner in Canada's first diamond mine. It will play an important role in the future as the Company continues to build on the techniques and methods that led to that success.

4. Expanding the exploration mandate.

Dia Met will increasingly evaluate intermediate and advanced stage diamond exploration projects. Opportunities, particularly in Canada, are currently being assessed for risk and potential rates of return.

Projects

The Company has conducted a thorough review to assess whether its current projects conform to exploration guidelines. Consequently, activity will be increased on some projects, reduced on others, and in some cases halted altogether.

THE EKATI™ DIAMOND MINE

Exploration at Ekati™ has the potential to yield further economic deposits, which would improve the mid-term cash flow and extend the life of the mine. BHP continues to manage operations on the property.

In the past 12 months, 20,925 line-km of airborne geophysical surveys have been flown and 249 heavy mineral samples collected to locate new kimberlite targets. Drilling is underway and will continue through the summer months. So far, 14 new kimberlite pipes have been drill confirmed: four in the Core Zone and 10 in the Buffer Zone. Dia Met has a 29 per cent interest in the Core Zone and 7.8 per cent in the Buffer Zone.

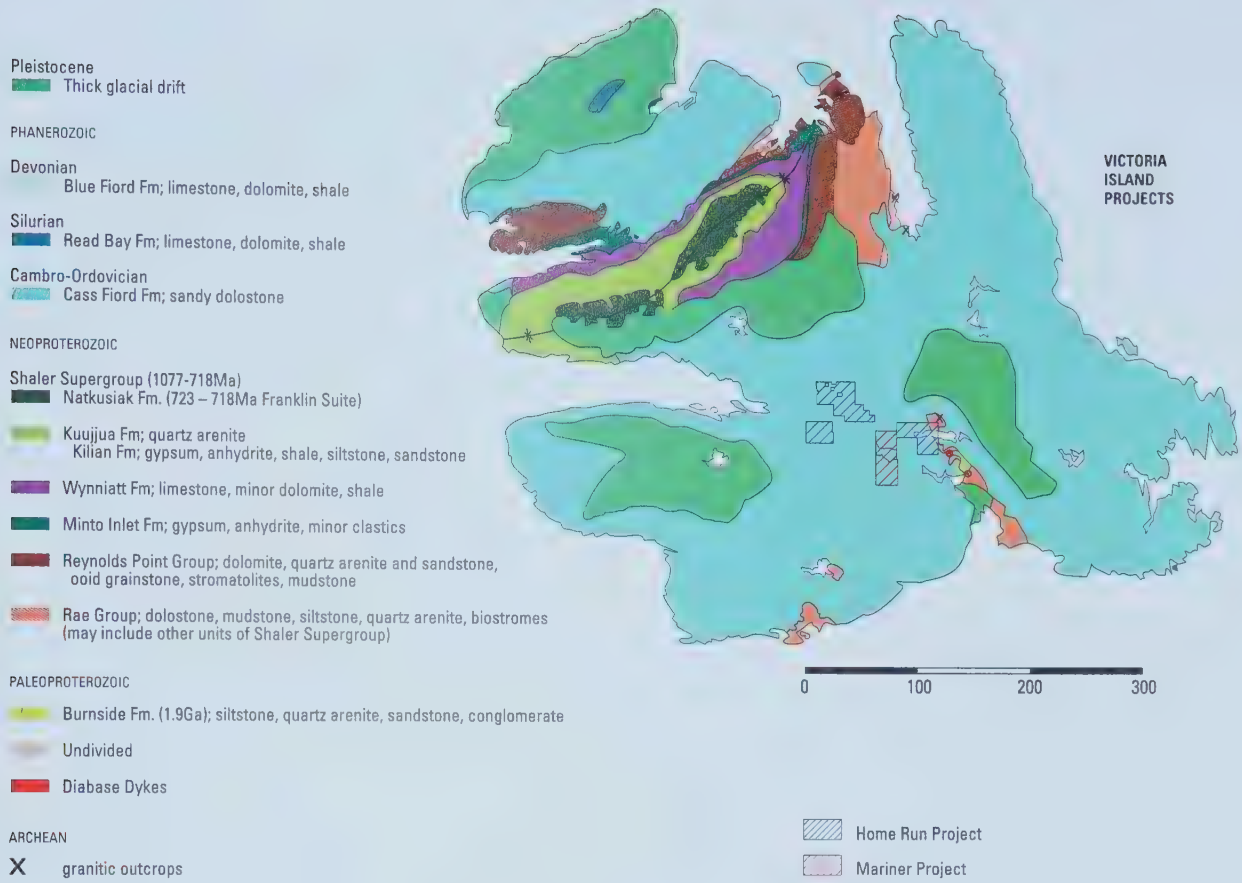
Four previously identified kimberlite pipes have been bulk sampled for the first time: three in the Core Zone and one in the Buffer Zone. Results are expected later this year. Results from bulk samples completed in 1999 were released and are as follows:

Pipe	Gazelle	Phoenix	Piranha
Kimberlite Sampled (tonnes)	240.7	106.1	87.4
Diamonds Recovered >1mm (carats)	141.38	149.22	203.44
Grade (carats/tonne)	0.59	1.41	2.33
Value (US$) per carat	$15.12	$24.78	$29.72

The level of exploration activity and funding at Ekati™ will be maintained. BHP's exploration team has demonstrated the highest level of technical ability resulting in ongoing success. The Ekati™ project is well managed and offers an excellent opportunity to add value to the company.

VICTORIA ISLAND

In August 1999, Dia Met entered into two separate joint venture agreements to explore for diamonds on Victoria Island, located in the Canadian arctic on the boundary between the Northwest Territories and Nunavut. The Victoria Island projects are Dia Met's first new projects



in Canada since the discovery of the Ekati™ mine.

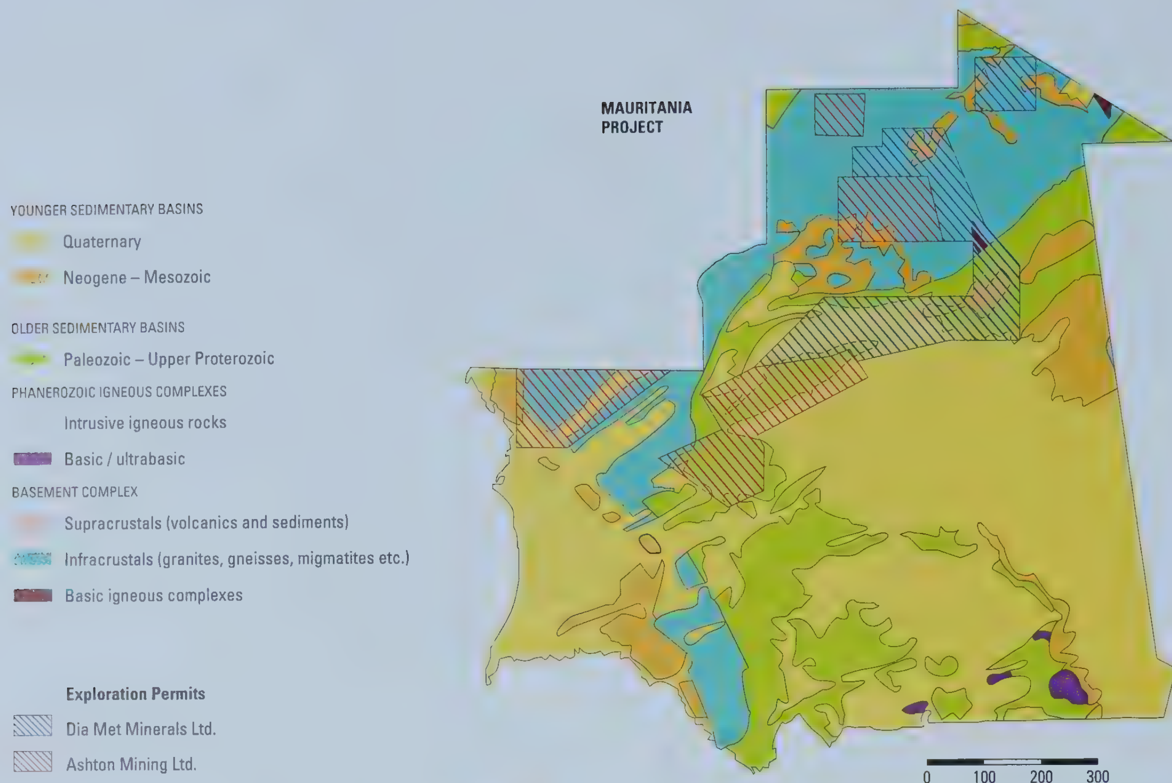
The first agreement was made between Dia Met, Major General Resources and Ascot Resources on the Mariner Project. Dia Met operates and manages the Mariner project and can earn a 51 per cent interest by spending $2.5 million by April 30, 2004.

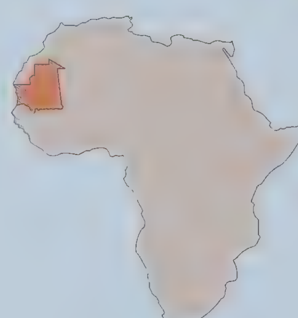
Under the terms of the second agreement between Dia Met and Major General, Dia Met can earn a 51 per cent interest in the Home Run project by funding $4.5 million on exploration by April 30, 2004.

The mineral claims on both projects cover about 2,384 sq. km on central Victoria Island and are close to kimberlites discovered by Monopros Limited including the Snowy Owl kimberlite. So far, Dia Met has collected about 1,000 heavy mineral samples. The results will be used to determine if follow-up work is warranted.

The early results from one area reveal high-interest indicator mineral chemistry. Dia Met has flown a 6,500 line-km airborne geophysical survey in an effort to identify potential sources. Further heavy mineral sampling, terrain analysis and possible ground geophysical surveys are also being considered for the year 2000 field season pending the final results from the 1999 sampling program.

The Victoria Island project is a grassroots project which, like any other, has high technical risk. But, the committed expenditure of $500,000 is modest, and potential of the project can be quickly evaluated. Ongoing efforts will be staged and driven by results.





MAURITANIA

In May 1999, Dia Met entered into a joint venture with Ashton Mining Limited of Australia to explore for diamonds in Mauritania. Under the terms of the agreement, Dia Met can earn a 25 per cent interest in the project by spending US$5 million by December 31, 2001 with an option to earn 49 per cent of the project by spending US$10 million by March 31, 2003. Although Ashton is the project operator, Dia Met has the controlling vote on programs and budgets while it provides sole funding.

The Islamic Republic of Mauritania is located in northwest Africa. It has a population of about 2.6 million people with a stable, democratically elected government. The Mauritanian government encourages foreign investment with favourable taxation, investment and mining laws. There is excellent access by four-wheel drive vehicle to most parts of the country. Supplies and materials not available locally can enter the country through the deep-water port of Nouadhibou on the northern coast.

Northern Mauritania is host to a large area of cratonic rock of Archaean age known as the Regiubat Shield. Most economic diamond deposits are found within Archaean age cratons.

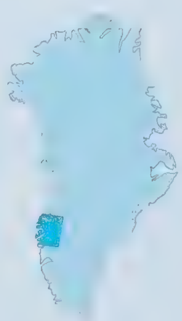
In 1995, Ashton began exploring in Mauritania with a countrywide soil-sampling program. Kimberlite indicator minerals were found to be widely dispersed leading Ashton to acquire the first diamond exploration permits in the country. Subsequently, a systematic exploration program was mounted.

The land package currently held by the joint venture covers 209,000 sq. km, an area larger than the entire Slave craton, where the Ekati™ mine is located. Five kimberlites have been discovered on the project. However, none of these are diamondiferous and do not explain the presence of the diamond indicator minerals. Bulk soil samples collected within drainage basins have yielded several gem-quality macro-diamonds, including a 1.16 carat stone. The source of the indicator minerals and macro-diamonds is being actively sought.

Exploration on the project ranges from evaluating recently acquired licences, to locating and testing targets. Since the execution of the joint venture, work has included the collection of 2,920 regional and follow-up heavy mineral samples and the acquisition of approximately 76,000 line-km of airborne geophysical data. Drilling equipment has been mobilized to test several additional targets.

The Mauritania exploration project combines acceptable technical and social risk with the potential for an excellent return on investment. The Company will closely monitor progress to ensure the project conforms to exploration guidelines.

GREENLAND (DIA MET, CITATION, CANTEX JOINT VENTURE)



Dia Met entered into a joint venture with Citation Resources and Cantex Mine Development in June 1997 to explore for diamonds in west Greenland. Currently, participating interests in the project are: Dia Met, 53.9 per cent; Citation, 35.5 per cent; and Cantex, 10.6 per cent. Dia Met operates and manages the joint venture.

Located on the west coast of Greenland near the community of Kangerlussuaq, the project includes three exploration permits covering 1,706 sq. km of Archaean cratonic rock. Greenland is a modern country with a progressive home rule government that views mineral exploration and mining as tools for economic development.

Over the last three years, Dia Met has conducted detailed and reconnaissance exploration programs on the project. Detailed exploration has been carried out in an area south of the Kangerlussuaq Fjord. This area was identified as highly prospective from the results of the due diligence heavy mineral sampling program in 1997. Reconnaissance sampling programs, terrain analysis and prospecting were conducted over the balance of the land package, which has been gradually reduced to include only the most prospective areas.

In 1997, a geophysical survey of more than 15,000 line-km was flown and more than 500 heavy mineral samples were collected in order to identify targets in the detailed area. Prospecting during the 1998 and 1999 field seasons identified more than 50 kimberlitic dykes, sills and stringers. However, none of these bodies has been interpreted as the source of the high-interest mineral chemistry that led to a decision to accelerate exploration in the area. Terrain analysis and follow-up heavy mineral sampling have identified 21 discreet areas shedding high-interest mineral chemistry. Three of these areas are ready for drilling.

Work planned for the upcoming field season is directed at developing targets within the 21 high-interest chemistry source areas and drilling those targets as well as three targets defined previously. Exploring for new source areas and targets within the existing land package will be driven by the results of this year's program.

GREENLAND (DIA MET, MONOPROS, CITATION JOINT VENTURE)

Dia Met entered into a second, separate joint venture to explore for diamonds in west Greenland with Monopros Limited, a wholly owned subsidiary of De Beers, and Citation Resources. Effective participating interests in the project are: Dia Met, 29 per cent; Monopros, 51 per cent; and Citation Resources, 20 per cent. Monopros manages and operates the project.

Since 1997, exploration on the project has included heavy mineral sampling, terrain analysis, prospecting, airborne and ground geophysical surveys and drilling. This work isolated four kimberlitic bodies shedding high interest mineral chemistry on two licences. In 1998, a 140 kg sample from one of those bodies yielded 474 micro-diamonds and five macro-diamonds and stands today as the best micro-diamond result from Greenland.

In 1999, a small bulk sample was collected from each of the four kimberlitic bodies to test the nature of the macro-diamond populations. Analysis of these samples yielded no macro-diamonds larger than 1mm in diameter. Smaller diameter diamonds may have been present in the sample, but no attempt was made to recover diamonds less than 1mm in diameter.

The poor results from the 1999 small bulk samples led to the decision to suspend work on the project. Options for future work are being considered and a final decision on the project is expected shortly.

FINLAND

Dia Met began exploring for diamonds in Finland in 1994. Reconnaissance heavy mineral sampling programs in 1994 and 1995 identified the Kuopio area of eastern Finland as prospective for diamonds. By the end of 1996, about 25,000 line-km of geophysical surveying had been completed over a target area defined by heavy mineral sampling. Several mineral claims had also been acquired.

In late 1997, Dia Met began negotiating a joint venture to explore for diamonds in Finland with Malmikaivos Oy, a wholly-owned subsidiary of Ashton Mining Limited of Australia. At that time, Ashton had been exploring in Finland for 10 years and had discovered 24 kimberlites in the Kuopio area, some of which had been determined to be sub-economic.

The joint venture agreement, executed in early 1998, gave Dia Met, as operator, access to Ashton's exploration database and the opportunity to earn a 60 per cent interest in any deposit found within a large area of eastern Finland, including the 24 kimberlites already discovered. All of the mineral claims already held by Dia Met were excluded from the joint venture agreement, effectively splitting the project into two: the Malmikaivos Joint Venture Project and the 100 per cent Dia Met owned Finland Project.

After the execution of the joint venture, work on the projects was geared toward the discovery of new kimberlites. A combination of heavy mineral sampling, ground geophysics and drilling led to the discovery of two additional kimberlites on joint venture ground in 1999. Results from the initial samples did not indicate that either of these warranted further work.

The present data indicate that diamondiferous kimberlites remain to be discovered in the Kuopio area. However, the complex local geology, the modest success rate on the project and the nature of the kimberlites discovered to date has led to the decision to suspend further work pending a thorough internal review.

RUSSIA

Dia Met initiated exploration in Karelia in 1995, an area of western Russia near the Finnish border. Using regional heavy mineral sampling, an area prospective for diamonds was identified near the White Sea and a permit for diamond exploration was acquired. Further heavy mineral sampling in the permitted area led to a 50 per cent reduction of the land package in early 1998, to include only the area with the best potential to yield an economic diamond deposit.

The kimberlite indicator minerals recovered from some samples collected during the 1998 field season, suggested that the source was within a few kilometres and would be diamondiferous. No fieldwork was conducted in 1999 since the next phase of exploration required substantial expenditure and Dia Met had not secured exploitation rights should a significant discovery be made.

Because of political uncertainty and a requirement for a significant financial commitment not related directly to exploration efforts, Dia Met has not accepted a mining licence awarded by the Karelian government. Rather, it has decided to search for a Russian partner that can work effectively and efficiently within the Russian system. Fieldwork on the project has been postponed.

Management's Discussion and Analysis

Results of Operations

NET EARNINGS AND EARNINGS PER SHARE

After tax net earnings for the year ended January 31, 2000 ("Fiscal 2000") were $47.5 million compared with a loss during the year ended January 31, 1999 ("Fiscal 1999") of $6.45 million. Basic earnings per share ("EPS") for Fiscal 2000 were $1.56. Approximately $0.24 of basic EPS was attributable to a one-time adjustment related to the recognition of future income tax assets earned prior to the start of Fiscal 2000. After allowing for this adjustment, basic EPS would have been approximately $1.32.

REVENUE

For Fiscal 2000 the Company earned revenue of $102.05 million compared to $5.58 million for Fiscal 1999, and $5.88 million for the year ended January 31, 1998 ("Fiscal 1998"). The component parts of revenue are equity in earnings from Ekati™, aircraft operations, gain on disposal of capital assets and interest and other income.

Equity in earnings of the Ekati™ Diamond Mine

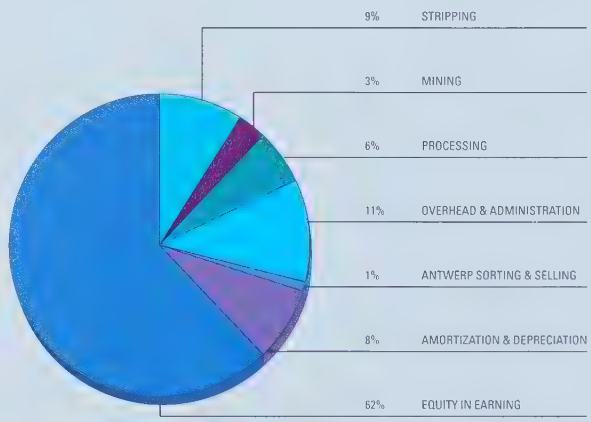
Under generally accepted accounting principals in Canada (GAAP), joint ventures must be accounted for using proportionate consolidation. However, the Company's investment in Ekati™ is accounted for as an equity investment. Under GAAP, a joint venture exists where there is joint control. In the case of Ekati™, BHP Diamonds Inc. has both financial control with a 51 per cent interest in the mine and management voting control under the Core Zone Joint Venture Agreement. Therefore, the Company cannot exercise joint control over Ekati™. The Company, by virtue of its 29 per cent interest in Ekati™ and membership on the Ekati™ management and technical committees has significant influence over Ekati™. According to GAAP, investments over which the Company has significant influence must be accounted for using the equity method. Under the equity method, an investment is carried as a one line item on the balance sheet and equity in earnings as a one line item on the income statement. However, the Canadian accounting standard setters recognize that in order to make informed decisions, investors sometimes require more information than is provided by the equity method of accounting. Therefore, for significant investments, GAAP requires a more detailed breakdown of balance sheet and income statement components in the notes to the financial statements. This breakdown is presented in Note 3 to the Company's consolidated financial statements.

In October 1998, Ekati™ commenced production and the first sales of diamonds were completed in January 1999. Results for Fiscal 2000 were significantly different from those for Fiscal 1999 because Fiscal 2000 reflected the first complete year of operations at Ekati™.

During Fiscal 2000 Ekati™ produced 2.51 million carats of diamonds, all from the Panda Pipe, compared to 0.42 million carats in Fiscal 1999. During Fiscal 2000 Ekati™ sold 2.24 million carats of diamonds at an average price per carat of US$168.05, mainly through its sales office in Antwerp. This compares with sales of 68,500 carats in Fiscal 1999 at an average price per carat of US$123.62.

For Fiscal 2000, the Company's 29 per cent share of diamond sales was $161.16 million compared to $3.77 million in Fiscal 1999. For Fiscal 2000 the Company's share of earnings from these sales before interest on the mine financing and income and resource taxes was $99.75 million compared to $1.74 million in Fiscal 1999. The difference between diamond sales of $161.16 million and equity in earnings of $99.75 million represents the Company's 29 per cent share of cost of sales, as explained below.

Ekati™ uses full absorption costing, whereby all costs are rolled into inventory as incurred and then into cost of sales on a units of production basis as inventory is sold. During Fiscal 2000 Dia Met's 29 per cent share of cost of sales before depreciation, amortization and depletion at Ekati™ was $48.18 million compared to $1.48 million in Fiscal 1999. Classifications of pre-depreciation and amortization cost of sales are stripping, mining, processing, overhead and administration and Antwerp sorting and selling. Amortization and depreciation for Fiscal 2000 was $13.23 million compared to $0.55 million in Fiscal 1999. Costs as a percentage of the Company's $161.16 million share of sales of Ekati™ diamonds are comprised approximately as follows:



- Stripping represents the cost of drilling and blasting, shovelling and hauling of overburden, equipment maintenance and some road maintenance.
- Mining represents the cost of drilling and blasting, shovelling and hauling of ore from the pit to the ore stockpile and to the primary crusher. Also included in mining is pit dewatering, some road maintenance, ore stockpile maintenance, and equipment maintenance.
- Processing represents the cost of crushing ore, heavy media separation, crushed ore handling and storage,

sample plant operations, process plant maintenance, diamond recovery, tailings handling and disposal, process plant labour, administration and supervision.

- Overhead and administration represent the cost of the following:
  - Administration, accounting, human resources and finance.
  - Mine management fee.
  - Safety and security.
  - Yellowknife sorting.
  - Ekati™ camp operations.
  - Training.
  - Maintenance.
  - Logistics and warehousing.
- Antwerp sorting and selling costs represent all costs associated with the sales office in Antwerp, Belgium.

Aircraft operations

The Company, through its wholly owned subsidiary, 555550 BC Ltd. ("555"), owns a helicopter and an aircraft hangar which are leased at market rates to Northern Air Support Ltd. ("NAS"), a former wholly owned subsidiary of the Company. Fiscal 2000 revenue of $247,300 from aircraft operations was consistent with Fiscal 1999 revenue of $284,860. In Fiscal 1999 revenue from aircraft operations decreased to $284,860 from $3.67 million in Fiscal 1998, due to the sale of 90 per cent of the Company's interest in NAS at the start of Fiscal 1999.

It is not the intention of the Company, at this time, to be actively engaged in aircraft operations in the foreseeable future, other than by way of the lease of the helicopter and aircraft hangar to NAS.

Gain on disposal of capital assets

The Company sold no capital assets during Fiscal 2000.

At the end of Fiscal 1998, NAS, which was then a subsidiary of the Company, sold its only aircraft and aircraft hangar to 555. The gain on disposal of capital assets in Fiscal 1998 of $761,497 resulted from the disposal of two helicopters by NAS, one of which was replaced and subsequently sold to 555.

The Company sold 90 per cent of its interest in NAS in Fiscal 1999 to a third party for the assumption of approximately $600,000 in debt owed by NAS to the Company. The Fiscal 1999 gain of $39,496 resulted from this transaction.

Interest and other income

Interest and other income decreased from $3.52 million in Fiscal 1999 to $2.05 million in Fiscal 2000 as a result of interest earning cash and temporary investments decreasing by $16.24 million during Fiscal 2000. Interest and other income increased to $3.52 million in Fiscal 1999 from $1.45 million in Fiscal 1998 because the Company completed a public offering part way through Fiscal 1998, the proceeds of which were kept as cash and temporary investments. Prior to the public offering, interest earning cash and investment balances in Fiscal 1998 were significantly lower than in Fiscal 1999.

EXPENSES

Total expenses were $27.53 million in Fiscal 2000 compared to $11.35 million in Fiscal 1999 and $8.19 million in Fiscal 1998. As explained below, the increase relates principally to interest on the obligations for Ekati™.

Interest on obligations for the Ekati™ Diamond Mine

Interest during Fiscal 2000 of $21.14 million reflects interest paid to BHP Diamonds Inc., on the average outstanding balance of the obligations for Ekati™, at the agreed upon annual rate of CDOR plus 3 per cent. The Fiscal 1999 interest expense of $5.19 million was significantly lower than that for Fiscal 2000 because interest has only been treated as an expense since production commenced in October 1998. Prior to October 1998 interest was capitalized. Amortization of capitalized interest and direct expenditures on the Ekati™ Diamond Mine was $1.67 million in Fiscal 2000 compared to $0.42 million in Fiscal 1999. The increase results from there only being three months of amortization in Fiscal 1999 versus a full year in Fiscal 2000. Capitalized interest and direct expenditures on Ekati™ are being amortized on a straight-line basis over the estimated remaining life of the mine. There was no interest expensed on the obligations for Ekati™ in Fiscal 1998, nor was any amortization taken on capitalized interest and direct expenditures on Ekati™ in Fiscal 1998.

Aircraft operations

Aircraft operating expenses, not including depreciation, were $111,384 in fiscal 2000, consistent with $132,872 in Fiscal 1999. These represent a significant drop from the Fiscal 1998 expense of $4.18 million. The decrease from Fiscal 1998 to Fiscal 1999 and Fiscal 2000 resulted from the change in aircraft operations discussed in the Revenue section under Aircraft Operations.

Cost of mineral properties abandoned

The cost of mineral properties abandoned was NIL in Fiscal 2000 compared to $2.05 million in Fiscal 1999 and $1.71 million in Fiscal 1998. No mineral properties were abandoned or written off during Fiscal 2000 but ongoing evaluations of all properties continued. The mineral properties written off in 1999 related primarily to exploration programs carried out in western Canada and the western United States. Mineral properties written off in 1998 related primarily to exploration programs carried out in western Canada.

General and administrative

General and administrative expenses for Fiscal 2000 were $3.30 million, consistent with $3.40 million in Fiscal 1999. The Fiscal 1999 expense increased from $2.13 million in Fiscal 1998. The increase from Fiscal 1998 to 1999 reflects the increased activity of the Company in Fiscal 1999 over prior years. Items that increased included professional fees, travel costs, and salaries and wages reflecting an increased number of employees. Also a factor was Fiscal 1999 being the first full year of operations for the investor relations and corporate communications

department, which was formed approximately six months into Fiscal 1998. The Company also experienced a Fiscal 1999 increase in Provincial Capital Tax.

Write Down of Temporary Investments

The write down of temporary investments in Fiscal 2000 resulted from certain of the Company's investments having a market value less than original cost. In Fiscal 1999 and 1998 this was not the case. Because GAAP requires that investments be carried at the lower of cost and market on an individual investment basis rather than in aggregate, the write down resulted in temporary investments being carried as at January 31, 2000, at a value that was, in aggregate, lower than market value.

Income taxes

During Fiscal 2000 the Company adopted CICA Handbook Section 3465, Income Taxes. As a result, the Company recorded a pre-existing Future Income Tax asset of $7.26 million resulting in a one time future income tax reduction and increase in net earnings of $7.26 million. As explained earlier, there was a resulting one-time increase in EPS of $0.24. This adjustment will not be necessary in future years. Current income taxes in Fiscal 2000 comprise Large Corporation Capital Tax of $794,531 and the Company's $219,832 share of the Northwest Territories mining royalty paid by Ekati™ during the year. No Northwest Territories mining royalties were paid prior to Fiscal 2000. Large Corporations Capital Tax increased from $677,895 in Fiscal 1999 and $498,360 in Fiscal 1998. The increase reflects an increase in taxable capital as Ekati™ was developed and approached production.

Future income taxes represent a tax on current earnings that are being deferred by taking income tax deductions in excess of deductions taken for accounting purposes. As the various available pools of income tax deductions are exhausted, the Company will have to pay income tax on its earnings at the prevailing rates of the day as well as paying the Future Income Taxes it is presently deferring. The effect, assuming no future change in tax rates, will be an approximate effective income tax rate of 44.6 per cent over the Ekati™ mine life with very low actual rates of payment while pools of tax deductions remain available and rates in excess of the prevailing rates once such pools have been exhausted.

Liquidity and Cash Resources

At January 31, 2000 the Company's cash of $2.42 million and temporary investments of $15.49 million totalled $17.91 million, a decrease of $16.24 million from the January 31, 1999 balance of $34.15 million. The January 31, 1999 balance represented a decrease of $8.42 million from the January 31, 1998 balance of $42.58 million.

The Company currently receives no cash directly from its investment in Ekati™, nor does it expend any cash on its investment in Ekati™. All of the Company's cash from the mine is set aside by the mine operator, BHP Diamonds Inc., and applied quarterly to reduce the obligations for the Ekati™ Diamond Mine. (See discussion below)

The Company's primary sources of cash continue to be interest earned on cash and investments, aircraft operations, which are discussed earlier, and proceeds from the issue of shares on exercise of director and employee stock options.

Proceeds from the issue of shares on exercise of stock options totalled $4.35 million in Fiscal 2000, $3.86 million in Fiscal 1999 and $9.02 million in Fiscal 1998. In Fiscal 1998 the Company also received proceeds of $38.54 million on a public offering of Class A shares.

The Company's primary uses of cash continue to be expenditures on mineral properties and deferred exploration and development, head office operating costs which are discussed under Expenses, and the repurchase of Company shares under normal course issuer bids.

Expenditures on mineral properties, and exploration and development less contributions received from co-venturers totalled $9.62 million in Fiscal 2000, $6.59 million in Fiscal 1999 and $5.63 million in Fiscal 1998. The increase from Fiscal 1999 to Fiscal 2000 resulted from the Company commencing new projects in Mauritania and Victoria Island, Canada, both of which the Company is solely funding. The Company also received lower contributions from co-venturers in the west Greenland program, Nevada Gold and Paul Mike projects than expected. The missed contributions resulted in a dilution of the co-venturers' interests and an increase in the Company's interest in those projects. The increase in expenditures from Fiscal 1998 to Fiscal 1999 resulted from the Company increasing the scope of its exploration program in Greenland.

In September 1998 the Company made a normal course issuer bid to repurchase up to 150,000 Class A Subordinate Voting Shares and up to 350,000 Class B Multiple Voting Shares on the market during the period from September 16, 1998, to September 15, 1999. Under that bid the Company repurchased 136,000 Class A shares and 331,400 Class B shares, all of which were cancelled on October 25, 1999. The Company commenced a new one year bid on October 15, 1999 under which it had purchased 34,700 Class A shares and 121,300 Class B shares by January 31, 2000. Under the October 15, 1999 bid, the Company may purchase, on the market, up to 150,000 Class A Subordinate Voting Shares and up to 350,000 Class B Multiple Voting Shares. No decision has been made as to whether the shares purchased under the October 15, 1999 bid will be cancelled.

Expenditures on shares repurchased under normal course issuer bids were $7.44 million in Fiscal 2000 and $5.47 million in Fiscal 1999. The increase results, in part, from there being an issuer bid ongoing throughout Fiscal 2000 while the issuer bid in Fiscal 1999 was only ongoing for four and a half months. There was no issuer bid during Fiscal 1998.

At January 31, 2000, the Company had a deficiency in

working capital of $52.97 million compared to working capital of $34.12 million at January 31, 1999. While GAAP requires the classification of the $14.3 million current portion of future income taxes as current, management does not expect actual taxes paid over the next twelve months to be significantly different from the Fiscal 2000 current tax provision $1.01 million. The current portion of the obligations for Ekati™ will be repaid by BHP Diamonds Inc. from Ekati™ cash flow. After adjusting for future income taxes and obligations for Ekati™, working capital was $17.66 million at January 31, 2000.

In addition to exploration at Ekati™, the Company anticipates incurring exploration expenditures in Fiscal 2001 of between $6 million and $8 million, excluding any exploration expenditures to be funded from contributions received from co-venturers.

The cash and working capital position at January 31, 2000, and the expected earnings from interest and other income in Fiscal 2001, should be sufficient to provide adequate working capital for the operations of the Company for the next twelve months although the Company will continue to review its practice of applying 100 per cent of after tax cash flow from Ekati™ to paying down the obligations for Ekati™.

Investment in the Ekati™ Diamond Mine

The final capital cost of Ekati™ was approximately $900 million, including contingencies. The capital cost included all project costs to the start of production and pre-stripping costs for the first pipe to be put into production. Approximately US$59 million of the total capital costs to the start of production are not shareable costs between the joint venture participants and are to be borne exclusively by BHP.

At January 31, 2000, the Company's investment in the Ekati™ Diamond Mine, after amortization, depletion and depreciation, was $279.83 million compared to $274.03 million at January 31, 1999. Over Fiscal 2000 the balance increased by equity in earnings of $99.75 million and $1.59 million in development expenditures financed by the obligations for Ekati™, and interest on cash dedicated for repayment of the obligations for Ekati™ for a total increase of $101.34 million. This increase was offset by amortization of capitalized interest and direct costs of $1.67 million and a return of investment on repayment of obligations for Ekati™ of $93.87 million for a net increase in the Investment in Ekati™ of $5.8 million.

Interest and direct expenditures made by the Company in Ekati™ were capitalized until the commencement of production. These costs, which totalled $28.44 million, are included in the Investment in Ekati™ and are being amortized on a straight-line basis over the remaining life of the mine, expected to be at least 17 years from commencement of production.

Obligations for the Ekati™ Diamond Mine

The balance of the obligations for Ekati™ was $204.77 million at January 31, 2000 compared to $276.24 million at January 31, 1999. The balance is reduced by repayments made during the year. It is increased by interest on the obligations and by amounts advanced by BHP Diamonds Inc. for the Company's share of exploration costs in the Buffer Zone. During Fiscal 2000 the balance decreased as a result of repayments totalling $93.87 million. The repayments were offset by an increase of $22.40 million representing $21.14 million in interest expense and $1.26 million in investment in development costs for a net $71.47 million decrease in the obligations. Of the $204.77 million balance in obligations for Ekati™, $56.34 million is due by January 31, 2001 and has accordingly been classified as current.

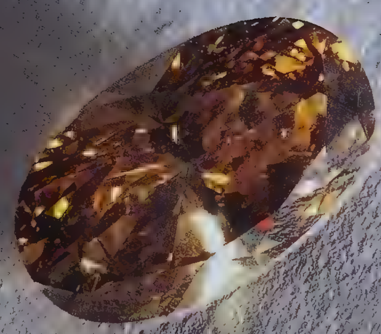
The January 31, 2000 obligations for Ekati™ comprised $4.00 million payable to BHP Diamonds Inc., a $206.50 million syndicated bank loan and an $18.64 million term bank loan. Offset against these balances is cash of $24.37 million that has been dedicated for repayment of the obligations on the next scheduled payment made in February 2000. Repayment of the aggregate principal amount of the syndicated bank loan and the term bank loan will be made by BHP Diamonds Inc. in quarterly installments until May 25, 2001, on which date a final payment of the unpaid balance, together with accrued interest and fees, and any other amounts owing to such date, is due, at which point the obligations will be refinanced either by BHP or a third party. The Company must apply 90 per cent of its share of the net after tax cash flow from Ekati™ operations to repayment of the obligations. Since the commencement of production at Ekati™, the Company has applied 100 per cent of its share of net after tax Ekati™ cash flows to repayment of the obligations. Management intends to continue this practice until such time as the Company requires 10 per cent of its share of net after tax Ekati™ cash flows to fund the day-to-day operations of the Company.

Year 2000 Issues

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company have been fully resolved.

Management developed and implemented a plan designed to identify and address the effects of the Year 2000 Issue on the Company. The Company assessed the Year 2000 readiness of its computer systems and performed all planned modifications or replacements. The Company received communication from its significant suppliers and business partners, including BHP Diamonds Inc., the operator of the Ekati™ Diamond Mine, detailing the procedures they undertook to address the Year 2000 Issue. As of May 24, 2000 the Company has not experienced any significant difficulties related to the Year 2000 Issue.

Financial Statements



An oval 11.34 carat cut and polished stone from Ekati™. Colour fancy brown, clarity IF. Valued at US$45,360.

Management's Responsibility for Financial Statements

The consolidated financial statements, the notes thereto and other financial information contained in the annual report are the responsibility of the management of Dia Met Minerals Ltd. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, which is comprised of Directors, none of whom are employees or officers of the Company, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting to Directors who approve the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, the independent auditors, in accordance with generally accepted auditing standards. The auditors have full and unrestricted access to the audit committee.

James E. Eccott

James E. Eccott
President and
Chief Executive Officer

Christopher Ryder
Secretary and
Controller

Kelowna,
British Columbia
March 22, 2000

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Dia Met Minerals Ltd. as at January 31, 2000 and 1999 and the consolidated statements of earnings and retained earnings (deficit), mineral properties and cash flows for each of the years in the three year period ended January 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three year period ended January 31, 2000, in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia) we report that in our opinion, these principles have been applied, after giving retroactive effect to the changes in the method of accounting for income taxes and presentation of the cash flows as explained in notes 1(k) and 1(o) to the consolidated financial statements, on a consistent basis.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected assets and shareholders' equity as at January 31, 2000 and 1999 and results of operations for each of the years in the three year period ended January 31, 2000 to the extent summarized in note 11 to the consolidated financial statements.

KPMG LLP

Chartered Accountants

Kelowna, Canada
March 22, 2000

Consolidated Balance Sheets

January 31, 2000 and 1999

	2000	1999
ASSETS		
Current assets		
Cash	$ 2,428,089	$ 93,251
Temporary investments *(note 1(e))*	15,486,682	34,062,051
Amounts receivable	618,242	1,546,252
	18,533,013	35,701,554
Capital assets *(note 2)*	2,473,298	2,492,812
Investment in the Ekati™ Diamond Mine *(note 3)*	279,826,767	274,028,176
Mineral properties		
Mineral and exploration interests *(note 4)*	790,888	752,497
Deferred exploration and development costs *(note 5)*	26,349,037	16,768,965
	27,139,925	17,521,462
	$ 327,973,003	$ 329,744,004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 868,364	$ 1,384,947
Income taxes payable	—	197,000
Current portion of obligations for the Ekati™ Diamond Mine *(note 6)*	56,335,953	—
Future income taxes payable *(note 7)*	14,298,119	—
	71,502,436	1,581,947
Obligations for the Ekati™ Diamond Mine *(note 6)*	148,435,091	276,239,228
Future income taxes payable *(note 7)*	11,707,115	—
Shareholders' equity		
Share capital *(note 8(b))*	79,434,688	76,319,432
Shares repurchased under normal course issuer bid *(note 8(f))*	(3,335,698)	(5,471,353)
Retained earnings (deficit)	20,229,371	(18,925,250)
	96,328,361	51,922,829
Agreements, commitments and contingencies *(note 5)*		
Related party transactions *(note 9)*		
Subsequent events *(note 10)*		
	$ 327,973,003	$ 329,744,004

See accompanying notes to consolidated financial statements

Approved by the Board

James E. Eccott

K.A. Christofferson

James E. Eccott, Director

Keith A. Christofferson, Director

Consolidated Statements of Earnings and Retained Earnings (Deficit)

Years ended January 31, 2000, 1999 and 1998

	2000	1999	1998
Revenue			
Equity in earnings of the Ekati™ Diamond Mine	$ 99,753,695	$ 1,738,161	$ —
Aircraft operations	247,300	284,860	3,674,015
Gain on disposal of capital assets	—	39,496	761,497
Interest and other income	2,047,366	3,515,394	1,446,203
	102,048,361	5,577,911	5,881,715
Expenses			
Interest on obligations for the Ekati™ Diamond Mine	21,144,787	5,189,876	—
Amortization of capitalized interest and direct expenditures on the Ekati™ Diamond Mine	1,672,736	418,184	—
General and administrative	3,298,041	3,400,738	2,129,752
Write down of temporary investments	1,112,293	—	—
Depreciation	189,597	164,971	176,737
Aircraft operations	111,384	132,872	4,176,752
Cost of mineral properties abandoned	—	2,047,792	1,707,041
	27,528,838	11,354,433	8,190,282
Earnings (loss) before income taxes	74,519,523	(5,776,522)	(2,308,567)
Income taxes *(note 7)*			
Current	1,014,363	677,895	498,360
Future	26,005,234	—	—
	27,019,597	677,895	498,360
Net earnings (loss) for the year	47,499,926	(6,454,417)	(2,806,927)
Deficit, beginning of year	(18,925,250)	(12,470,833)	(9,663,906)
Excess of cost of shares repurchased and cancelled over original average issue price *(note 8(f))*	(8,345,305)	—	—
Retained earnings (deficit), end of year	$ 20,229,371	$ (18,925,250)	$ (12,470,833)
Net earnings (loss) per share, basic *(note 1(m))*	$ 1.56	$ (0.21)	$ (0.10)
Net earnings per share, fully diluted *(note 1(m))*	$ 1.49	$ N/A	$ N/A

See accompanying notes to consolidated financial statements

Consolidated Statements of Mineral Properties

Years ended January 31, 2000, 1999 and 1998

	2000	1999	1998
Expenditures during the year for mineral and exploration interests and deferred exploration and development			
Mineral and exploration interests	$ 38,391	$ 185,925	$ 196,334
Deferred exploration and development			
Claims exploration, laboratory, assay and engineering expenditures	8,015,438	8,334,372	8,127,889
Management fees and salaries	664,225	883,833	182,914
Office and other	481,973	115,142	360,075
Professional fees	526,096	89,727	204,417
Travel and other	181,500	115,164	123,440
	9,869,232	9,538,238	8,998,735
Option payments applied	(289,160)	(3,138,488)	(3,569,884)
	9,580,072	6,399,750	5,428,851
	9,618,463	6,585,675	5,625,185
Cost of programs abandoned			
Mineral and exploration interests	—	(40,841)	(7,863)
Deferred exploration and development costs	—	(2,006,951)	(1,699,178)
	—	(2,047,792)	(1,707,041)
	9,618,463	4,537,883	3,918,144
Balance, beginning of year	17,521,462	12,983,579	9,065,435
Balance, end of year	$ 27,139,925	$ 17,521,462	$ 12,983,579

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

Years ended January 2000, 1999 and 1998

	2000	1999 (Restated note 1(p))	1998 (Restated note 1(p))
Cash provided by (used in)			
Operations			
Net earnings (loss) for the year	**$ 47,499,926**	$ (6,454,417)	$ (2,806,927)
Items not involving cash:			
Depreciation and amortization	**1,862,333**	583,155	176,737
Future income taxes	**26,005,234**	—	—
Cost of mineral properties abandoned	**—**	2,047,792	1,707,041
Gain on disposal of capital assets	**—**	(39,496)	(761,497)
Undistributed earnings of the Ekati™ Diamond Mine	**(6,194,427)**	(1,738,161)	—
Changes in non-cash operating working capital			
Amounts receivable	**928,010**	(7,559)	(746,418)
Accounts payable and accrued liabilities	**(516,583)**	445,813	(21,923)
Income taxes payable	**(197,000)**	(292,675)	489,675
	69,387,493	(5,455,548)	(1,963,312)
Investing activities			
Decrease (increase) in temporary investments	**18,575,369**	728,792	(32,238,127)
Purchases of capital assets	**(170,083)**	(142,210)	(1,986,197)
Expenditures on mineral and exploration interests	**(38,391)**	(185,925)	(196,334)
Expenditures on deferred exploration and development	**(9,869,232)**	(9,538,238)	(8,998,735)
Investment in the Ekati™ Diamond Mine	**(1,276,900)**	(100,953,829)	(171,833,684)
Proceeds from disposal of capital assets	**—**	179,803	2,145,470
	7,220,763	(109,911,607)	(213,107,607)
Financing activities			
Option payments applied to expenditures on mineral properties	**289,160**	3,138,488	3,569,884
Increase in obligations for the Ekati™ Diamond Mine	**22,402,052**	106,143,705	171,833,684
Repayment of obligations for the Ekati™ Diamond Mine	**(93,870,236)**	—	—
Shares issued for cash	**4,350,599**	3,864,581	47,554,891
Shares repurchased under normal course issuer bids *(note 8(f))*	**(7,444,993)**	(5,471,353)	—
Decrease in long term debt	**—**	—	(371,823)
	(74,273,418)	107,675,421	222,586,636
Increase (decrease) in cash	**2,334,838**	(7,691,734)	7,515,717
Cash, beginning of year	**93,251**	7,784,985	269,268
Cash, end of year	**$ 2,428,089**	$ 93,251	$ 7,784,985
Supplemental information:			
Interest paid	**$ 21,144,787**	$ 5,189,876	$ —
Income taxes paid	**$ 1,014,363**	$ 970,570	$ 8,685

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years ended January 31, 2000, 1999 and 1998

1. Significant accounting policies

a) Nature of operations

These financial statements have been prepared on the basis of Canadian generally accepted accounting principles and are expressed in Canadian dollars. The results of applying accounting principles generally accepted in the United States are set out in note 11.

Dia Met Minerals Ltd. is incorporated under the laws of British Columbia and its principal business activities include mineral property exploration and development and the mining, processing and sale of diamonds via its equity investment in the Ekati™ Diamond Mine (see note 3), which commenced production in October 1998.

b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

d) Fair values of financial instruments and credit risk

The carrying amounts for cash, amounts receivable, accounts payable and accrued liabilities and income taxes payable approximate fair value because of the short term nature of these instruments. The fair value of temporary investments is disclosed in note 1(e). The carrying amount of the bank loans and payable to BHP Diamonds Inc. included in the obligations for the Ekati™ Diamond Mine approximate fair value because their interest rates fluctuate with the market. Credit risk on amounts receivable is limited to the outstanding balance of such amounts.

e) Temporary investments

Temporary investments are stated at the lower of cost and quoted market value on a specific security basis.

	2000	1999
Quoted market value	**$ 16,190,576**	$ 35,012,480

f) Capital assets

Capital assets are recorded at cost. Depreciation is provided using the following methods and annual rates:

Asset	Method	Rate
Aircraft operations		
Aircraft	Straight-line	20%
Building	Straight-line	4%
Diamond recovery plant		
Building	Straight-line	2.5%
Machinery and equipment	Straight-line	2.5%
Furniture and fixtures	Straight-line	10%
Head office		
Computer equipment	Declining balance	15%
Furniture, fixtures and equipment	Declining balance	15%
Leasehold improvements	Straight-line	20%
Exploration		
Equipment	Declining balance	15%

g) Investment in the Ekati™ Diamond Mine

The Company accounts for its investment in the Ekati™ Diamond Mine using the equity method because it is able to exercise significant influence but not control, or joint control, over the Mine. Under this method, the Company includes in earnings its share of the earnings or losses of the Ekati™ Diamond Mine. The investment in the Ekati™ Diamond Mine includes the Company's equity in joint venture exploration and mine development costs, capitalized interest and direct expenditures on the Ekati™ Diamond Mine and the Company's equity in the earnings of the Mine. The investment is reduced by the Company's equity in the losses of the Mine, amortization of capitalized interest and direct expenditures on the Ekati™ Diamond Mine and by cash distributions received from the Mine.

h) Capitalized interest and direct expenditures on the Ekati™ Diamond Mine

Interest and direct expenditures related to mine development were capitalized until the mine commenced production in October 1998, at which time amortization of such costs commenced. Since the commencement of production, all interest has been charged to operations as incurred. Amortization of capitalized interest and direct expenditures is provided on a straight-line basis over the expected life of the mine.

i) Mineral properties

The Company, directly and indirectly through joint exploration and development ventures and other arrangements, is in the process of exploring and developing its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable.

The amount shown for mineral properties includes the direct costs of acquiring, maintaining, exploring and developing properties, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. All other costs, including administrative overhead, are expensed as incurred. Mineral properties acquired for share consideration are recorded at the fair value of the shares at the date of acquisition.

Management periodically reviews the carrying values of its investments in mineral properties with internal and external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre-determined holding period for properties with no proven reserves. However, properties which have not demonstrated suitable prospects at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral and exploration interests and deferred exploration and development costs represent unamortized costs to date and do not necessarily reflect present or future values.

The accumulated costs of mineral properties that are developed to the stage of commercial production will be amortized to operations through a combination of unit of production depletion based on proven and probable reserves and other reasonable and systematic methods of amortization. The actual methods and rates used will depend on the nature of the assets being amortized.

The recoverability of the amounts shown for mineral properties and capital assets of $27,139,925 and $2,473,298, respectively, as at January 31, 2000, is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of the properties and the generation of sufficient income through future production from, or the disposition of, such assets.

j) Joint exploration and development ventures

A portion of the Company's exploration and development activities is conducted jointly with others and accordingly these financial statements reflect only the Company's share of expenditures for such activities.

k) Future income taxes

In December 1997, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued Section 3465 of the CICA Handbook, Income Taxes ("Section 3465"). Effective February 1, 1999, the Company retroactively adopted Section 3465. The cumulative effect of this change in accounting policy was not significant. Section 3465 requires a change from the deferred method of accounting for income taxes to the asset and liability method of accounting for income taxes.

Under the asset and liability method of Section 3465, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Section 3465, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Pursuant to the deferral method, which was applied in 1999 and prior years, deferred income taxes are recognized for income and expense items that are reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable for the year of the calculation. Under the deferral method, deferred taxes are not adjusted for subsequent changes in tax rates.

l) Foreign currency translation

Amounts denominated in foreign currencies have been translated into Canadian dollars as follows:

i) Monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date;

ii) Non-monetary assets and liabilities at the rate of exchange prevailing at the time of acquisition of the assets or assumption of the liabilities; and

iii) Revenue and expenses at rates approximating the rates of exchange prevailing on the transaction date except for depreciation, which is translated at the same rate as the assets to which it relates. Gains or losses on translation are included in earnings.

1. **Significant accounting policies** *(continued)*

m) **Net earnings (loss) per share**
Net earnings (loss) per share has been calculated using the weighted average number of common shares outstanding during the years. Net earnings per share, fully diluted, has been calculated reflecting the issuance of shares referred to in note 8(c) and assuming the full exercise of stock options referred to in note 8(d). Net earnings per share, fully diluted for 1999 and 1998 has not been presented as the factors referred to above are antidilutive.

The average numbers of shares outstanding for the year used to calculate basic and fully diluted net earnings (loss) per share are as follows:

	2000	1999	1998
Weighted average number of common shares outstanding - basic	**30,416,725**	30,298,886	29,334,779
Weighted average number of common shares outstanding - fully diluted	**33,071,970**	N/A	N/A

n) **Stock based compensation plan**
The Company has a stock based compensation plan which is described in note 8(e).

No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on the exercise of stock options is credited to share capital.

o) **Adoption of new accounting standard**
Effective February 1, 1999, the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants relating to cash flows. The new standard has been retroactively applied and prior year comparative amounts have been restated to conform to the new standard. Significant differences affecting the Company include reclassifying temporary investments as an investing activity from cash and cash equivalents on the consolidated statements of cash flows.

p) **Comparative figures**
Certain of the prior years' figures have been reclassified to conform with the current year's financial statement presentation.

2. **Capital Assets**

2000	Cost	Accumulated depreciation	Net book Value
Aircraft operations			
Aircraft	$ 1,734,213	$ 195,143	$ 1,539,070
Building	322,567	72,265	250,302
	2,056,780	267,408	1,789,372
Diamond recovery plant			
Land	13,934	—	13,934
Building	48,346	7,252	41,094
Machinery and equipment	84,540	12,681	71,859
Furniture and fixtures	15,000	8,498	6,502
	161,820	28,431	133,389
Head office			
Computer equipment	185,045	44,995	140,050
Furniture, fixtures and equipment	169,845	69,208	100,637
Leasehold improvements	161,431	73,714	87,717
	516,321	187,917	328,404
Exploration			
Equipment	325,292	103,159	222,133
	$ 3,060,213	$ 586,915	$ 2,473,298

1999	Cost	Accumulated depreciation	Net book Value
Aircraft operations			
Aircraft	$ 1,734,213	$ 125,773	$ 1,608,440
Building	322,567	53,064	269,503
	2,056,780	178,837	1,877,943
Diamond recovery plant			
Land	13,934	—	13,934
Building	48,346	6,043	42,303
Machinery and equipment	84,540	10,567	73,973
Furniture and fixtures	15,000	7,350	7,650
	161,820	23,960	137,860
Head office			
Computer equipment	117,176	27,156	90,020
Furniture, fixtures and equipment	148,038	53,004	95,034
Leasehold improvements	136,107	50,507	85,600
	401,321	130,667	270,654
Exploration			
Equipment	273,308	66,953	206,355
	$ 2,893,229	$ 400,417	$ 2,492,812

3. **Investment in the Ekati™ Diamond Mine**

a) The Company's investment in the Ekati™ Diamond Mine is held in two joint ventures consisting of the following:

Investment in the Core Zone and Buffer Zone Joint Ventures

Joint Venture	Core Zone	Buffer Zone	**2000 Total**	1999 Total
Company's interest	29.0%	7.8%		
Current assets	$ 43,124,319	$ —	**$ 43,124,319**	$ 21,424,105
Capital assets				
Equipment and facilities	145,425,989	—	**145,425,989**	141,079,265
Exploration and development	78,328,307	1,144,245	**79,472,552**	76,713,944
Deferred stripping	23,110,504	—	**23,110,504**	20,798,779
Accumulated depreciation depletion, and amortization	(29,856,294)	—	**(29,856,294)**	(13,355,531)
	217,008,506	1,144,245	**218,152,751**	225,236,457
Total assets	260,132,825	1,144,245	**261,277,070**	246,660,562
Less liabilities	(7,530,602)	(265,301)	**(7,795,903)**	(650,772)
Company's equity in net assets of the joint ventures	$ 252,602,223	$ 878,944	**253,481,167**	246,009,840
Capitalized interest, net of accumulated amortization of $1,968,945 (1999 - $393,789)			**24,808,728**	26,383,884
Direct expenditures on the Ekati™ Diamond Mine, net of accumulated amortization of $121,975 (1999 - $24,395)			**1,536,872**	1,634,452
			$ 279,826,767	$ 274,028,176

The Ekati™ Diamond Mine commenced production in October 1998. The first sales of diamonds were made in January 1999 and the Company's equity in the earnings therefrom is reflected in the consolidated statement of earnings and retained earnings (deficit).

The Company's equity in the earnings of the Ekati™ Diamond Mine operations reflected in the consolidated statement of earnings and retained earnings (deficit) comprise the following:

	2000	1999
Sales	**$ 161,164,700**	$ 3,766,235
Cost of sales	**48,181,632**	1,484,260
Depreciation, depletion and amortization	**13,229,373**	543,814
Earnings before resource taxes	**$ 99,753,695**	$ 1,738,161

3. Investment in the Ekati™ Diamond Mine *(continued)*

a) The Company's investment in the Ekati™ Diamond Mine is held in two joint ventures consisting of the following *(continued)*:

BHP Diamonds Inc., the joint venture participant holding a 51% interest, must provide, arrange and/or guarantee financing for the other joint venture participants for their share of the first mine as long as its joint venture interest does not fall below 50%. The Company must repay its share of the mine financing plus interest at CDOR plus 3% per annum from 90% of its share of the net after tax cash flow from the mine until fully repaid.

The Company must pay a royalty to a joint venture participant ranging from $2.8002 to $23.4210 per undiluted tonne for certain production in excess of 1,379,000 undiluted tonnes from the Misery Pipe which is included in the Core Zone. Based upon existing production schedules, these royalty payments will commence in the year 2005.

The Company has a commitment to issue to two directors a total of 125,000 Class A shares and 500,000 Class B shares if there are more than 300 days of commercial production from a mine in this venture.

b) Significant accounting policies followed by the Ekati™ Diamond Mine are as follows:

i) Equipment and facilities
Equipment and facilities are recorded at cost and amortized over their estimated useful lives ranging from three to seventeen years.

ii) Exploration and development
Exploration and development consists of exploration, evaluation and development expenditures, which are capitalized for areas of interest in which economically recoverable mineral resources have been identified. The costs are being amortized over the life of the mine. Amortization commenced on the start of commercial production.

iii) Deferred stripping
Costs associated with removing overburden from the property are deferred and charged against earnings on a unit of production basis utilizing expected average stripping ratios.

iv) Reclamation
Costs related to ongoing site restoration are expensed when incurred. A provision for mine closure and site closure costs is charged to earnings during the life of the mine.

v) Revenue recognition
Revenues from the sale of diamonds are recorded when the rights and obligations of ownership pass to the buyer.

4. Mineral and exploration interests

Program	Nature of interest	2000	1999
Finland program	100% of exploration program	$ 696,778	$ 696,778
Paul Mike program	Joint exploration program	69,597	55,717
Victoria Island	Joint exploration program	14,070	—
West Greenland program	Joint venture	10,441	—
Jack claims	100% of mineral claims	1	1
Northern Gold and Bandit interest	1% net smelter royalty	1	1
		$ 790,888	$ 752,497

5. Deferred exploration and development costs

Deferred exploration and development costs have been incurred, net of write-downs, on mineral and exploration interests as follows:

	2000	1999
Finland program	$ 9,748,867	$ 9,176,384
West Greenland program	4,623,556	2,159,606
Mauritania joint venture	3,644,014	—
Finland joint venture	2,872,320	2,106,466
Russia program	2,395,585	2,012,538
Paul Mike program	1,251,987	420,611
Victoria Island project	888,656	—
West Greenland joint venture	433,427	461,714
Nevada Gold joint venture	257,568	223,345
Other	233,057	208,301
	$ 26,349,037	$ 16,768,965

a) **Finland program**

The Company has an obligation to pay a third party up to a 1% net smelter return royalty in respect of certain properties in Finland acquired by the Company as a result of exploration done under a consulting agreement with the third party. The Company will have the right to buy out two thirds of this royalty for US$2,000,000 at any time within the first five years after commencement of commercial production of the first mine, and the remaining one third of the royalty for US$1,000,000 within the second five years.

b) **West Greenland program**

The Company acquired a 31% interest in certain exploration licenses located in west Greenland during the 1999 fiscal year and entered into a joint venture with two third parties. The Company and the other parties to the joint venture are required to fund all exploration expenditures after October 15, 1998, in proportion to their respective interests.

The joint venture agreement provides formulas for dilution and the calculation of net profit interests in various circumstances. If a party's interest is reduced to 8%, its interest will be converted to a 1% royalty on production from the property. At January 31, 2000 the Company's interest in the joint venture was 53.9% as a result of dilution of the third parties' interests.

c) **Mauritania joint venture**

During 2000, the Company formed a joint venture with a third party whereby the Company can earn up to a 49% participating interest in certain diamond exploration permits in Mauritania. Under the terms of the joint venture agreement, the Company must spend US$2,500,000 on exploration on the property by March 31, 2000. In order to earn an initial 25% interest in the property, the Company must spend an additional US$2,500,000 on exploration by December 31, 2001. The Company can, at its discretion, increase its interest in the property to 49% by expending a further US$5,000,000 by March 31, 2003.

d) **Finland joint venture**

A wholly owned subsidiary of the Company entered into an option agreement to acquire a 60% interest in certain claims in Finland owned by a third party. In order to exercise the option, the subsidiary must incur exploration or other defined expenditures or payments on the property of $1,000,000 by December 31, 1998, a further $1,000,000 by December 31, 1999, and a further $2,000,000 by December 31, 2000. On exercise of the option, the subsidiary will enter into a joint venture agreement with the third party.

e) **Russia program**

On August 7, 1995, the Company was granted an exploration license by the Russian government. The license is for five years and allows the Company to investigate and explore within an area of interest. Under the terms of the license, the Company must pay to the Russian government an annual payment equal to 2% of the cost of the field exploration expenditures incurred in the area of interest. Other terms of the license relate to the possible reimbursement by third parties of the investigation and exploration costs incurred by the Company plus interest at 20% per annum, should the Company not proceed to mining in the area of interest and should mining proceed by another party.

f) **Paul Mike program**

The Company granted an option to a third party to acquire a 49% interest in the Paul Mike claims held by the Company. Under the terms of the option agreement the third party has paid $800,000 and was required to pay a further $1,200,000 by June 1, 1999, to exercise their option. All funds received were used to fund exploration expenditures related to the property on behalf of the third party. As of January 31, 1999, the Company had spent $811,735 on behalf of the third party in excess of funds received from the third party.

This amount was included in amounts receivable at January 31, 1999. The third party failed to exercise its option by June 1, 1999 and the $811,735 in amounts receivable was reclassified on the balance sheet to exploration expenditures. The Company is presently negotiating terms under which the third party may exercise its option.

On exercise of the option, the Company will enter into a joint venture with the other party.

g) **Victoria Island project**

The Company entered into letter agreements with two third parties whereby the Company may earn up to a 51% interest in certain exploration properties in Victoria Island, Nunavut. In order to earn a 51% interest in the properties the Company paid $32,500 to the third parties on closing the agreements and must incur exploration costs on the properties of $500,000 by April 30, 2000, a further $830,000 by April 30, 2001, a further $1,300,000 by April 30, 2002, a further $1,740,000 by April 30, 2003 and a further $2,630,000 by April 30, 2004. On exercise of the option the Company will enter into joint ventures with the third parties.

h) **West Greenland joint venture**

The Company acquired a 49% interest in a joint venture from a third party. Under the terms of the purchase agreement, the Company has an obligation to the third party for a cash flow interest equal to 40.816% of the Company's share of all net proceeds received by the Company from the sale of diamonds or other minerals from the joint venture property.

The third party is obligated to fund 40.816% of any amount required to be funded by the Company under the joint venture agreement. If this obligation is not met, the third party's cash flow interest will be decreased from 40.816% to 1%.

If the Company's 49% interest in the joint venture converts to a royalty interest, then the third party will be entitled to receive 40.816% of any such royalty.

i) **Nevada Gold joint venture**

The Company has a 52.14% participating interest in certain claims and areas of interest, which are held in a joint venture with another party. The joint venture agreement provides formulas for dilution and the calculation of net profit interests in various circumstances. Future joint venture exploration will be funded by each party in proportion to each party's participating interest in the joint venture.

6. **Obligations for the Ekati™ Diamond Mine**

Obligations for the Ekati™ Diamond Mine consist of the following amounts:

	2000	1999
Syndicated bank loan	$ 206,500,000	$ 236,000,000
Bank loan	18,635,091	—
Less cash restricted for repayment of current portion of above obligations offset for financial statement presentation purposes	(24,369,910)	—
Payable to BHP Diamonds Inc.	4,005,863	40,239,228
	204,771,044	276,239,228
Current portion	56,335,953	—
	$ 148,435,091	$ 276,239,228

Interest accrues on the above obligations at CDOR plus 3% per annum compounded annually. The syndicated bank loan and the bank loan are secured firstly by the guarantee of Broken Hill Proprietary Company Limited and secondly by the Company's interest in the Ekati™ Diamond Mine. There is no other recourse against the Company for these loans. The payable to BHP Diamonds Inc. is secured by the Company's interest in the Ekati™ Diamond Mine.

Repayment of the principal amount of the syndicated bank loan and the bank loan together with interest and fees is to be made in scheduled quarterly installments by BHP Diamonds Inc. to May 25, 2001. The Company has classified as a current liability its proportionate share of scheduled quarterly installments required to be repaid by BHP Diamonds Inc. The Company must repay BHP Diamonds Inc. under the terms described in note 3.

7. **Income taxes**

Current income taxes reported on the Consolidated Statements of Earnings and Retained Earnings (Deficit) represents large corporation's tax, which is independent of earnings, and mining royalties paid to the government of the Northwest Territories.

Income tax expense attributable to earnings differs from the amounts computed by applying the combined federal and provincial income tax rate of 43.1% to pretax earnings as a result of the following:

	2000	1999	1998
Earnings (loss) before income taxes	$ 74,519,523	$ (5,776,522)	$ (2,308,567)
Computed "expected" tax expense (recovery)	32,117,914	(2,489,681)	(994,992)
Increase (reduction) in income taxes resulting from:			
Permanent difference	16,666	18,899	14,280
Tax effect of resource allowance	(10,677,289)	—	—
Change in valuation allowance	(7,262,328)	—	—
Tax effect of NWT mining royalties	11,810,271	—	—
Valuation allowance	—	2,470,782	980,712
	$ 26,005,234	$ —	$ —

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below.

	2000	1999
Future income tax assets:		
Current:		
Non-capital loss carryforwards	$ —	$ 11,807,675
Helicopter maintenance reserve	—	54,269
	—	11,861,944
Future income tax liabilities:		
Current:		
Equity in earnings of the Ekati™ Diamond Mine	(26,527,422)	—
Non-capital loss carryforwards	11,746,477	—
Temporary investments	380,404	—
Helicopter maintenance reserve	102,422	—
	(14,298,119)	—
Non-current:		
Capital assets and mineral properties	(273,630)	(5,164,794)
Share issue costs	376,786	565,178
Tax effect of NWT mining royalties	(11,810,271)	—
	(11,707,115)	(4,599,616)
Net future income tax (liability) asset	(26,005,234)	7,262,328
Valuation allowance	—	(7,262,328)
Net future income tax liability	$ (26,005,234)	$ —

As at January 31, 2000, the Company has the following non-capital losses available to reduce future years' income for tax purposes:

Available through:	2002	$ 89,543
	2003	4,798,632
	2004	1,585,417
	2005	12,695,662
	2006	8,076,462
		$ 27,245,716

8. **Share capital**

a) **Authorized**

100,000,000 Class A Subordinate Voting Shares, without par value, entitled to one vote per share and in certain circumstances are convertible to one Class B share.

25,000,000 Class B Multiple Voting Shares, without par value, entitled to ten votes per share and are convertible to one Class A share.

The Class A and Class B shares have the same rights and are equal in all respects except as stated above.

b) **Issued**

The following changes occurred to issued share capital during the periods indicated:

	Number of Class A shares	Amount related to Class A shares	Number of Class B shares	Amount related to Class B shares	Amount related to all shares
Balance, January 31, 1998	8,142,074	$ 51,190,892	21,920,496	$ 21,263,959	$ 72,454,851
Issued for cash on exercise of options	252,300	3,027,181	53,000	837,400	3,864,581
Balance, January 31, 1999	8,394,374	$ 54,218,073	21,973,496	$ 22,101,359	$ 76,319,432
Issued for cash on exercise of options	335,700	4,350,599	—	—	4,350,599
Shares repurchased under Normal Course Issuer Bids and cancelled on October 25, 1999 *(See note 8(f))*	(136,000)	(902,015)	(331,400)	(333,328)	(1,235,343)
Balance, January 31, 2000	8,594,074	$ 57,666,657	21,642,096	$ 21,768,031	$ 79,434,688

c) **Commitment**

The Company has a commitment to issue 125,000 Class A shares and 500,000 Class B shares under circumstances disclosed in note 3.

d) **Stock options**

The directors and certain employees have been granted options to purchase shares of the Company as follows:

	2000 Options	2000 Weighted average exercise price	1999 Options	1999 Weighted average exercise price	1998 Options	1998 Weighted average exercise price
Class A shares						
Outstanding, beginning of year	2,135,500	$ 15.96	2,097,800	$ 14.72	2,163,050	$ 13.55
Issued	411,000	19.92	290,000	21.46	257,000	21.20
Exercised	(335,700)	12.96	(252,300)	12.00	(322,250)	12.02
Outstanding, end of year	2,210,800	17.15	2,135,500	15.96	2,097,800	14.72
Class B shares						
Outstanding, beginning of year	—	—	53,000	$ 15.80	428,200	$ 13.97
Issued	—	—	—	—	—	—
Exercised	—	—	(53,000)	15.80	(375,200)	13.72
Outstanding, end of year	—	—	—	—	53,000	15.80

The following table summarizes information about the options outstanding at January 31, 2000:

Range of exercise price	Options outstanding	Weighted average remaining life	Weighted average exercise price
$9.25 to $13.37	817,700	4.8 years	$ 11.70
$16.69 to $24.00	1,393,100	7.9 years	20.35
	2,210,800	6.8 years	17.15

All of the above options are eligible for exercise.

8. **Share capital** *(continued)*

e) **Stock option plan**
Pursuant to its plan, the Company has reserved 3,750,000 Class A Subordinate Voting Shares for issuance to employees and directors of the Company and its subsidiaries. The total number of options outstanding shall not exceed 10% of the aggregate issued and outstanding Class A Subordinate Voting Shares and Class B Multiple Voting Shares. The exercise price of options issued under the plan is determined by the Board of Directors at the time the options are granted. The options have no vesting period, except as determined in special circumstances by the Board of Directors, and are exercisable for up to ten years from the date the option is granted.

f) **Shares repurchased under Normal Course Issuer Bids**
The Company has made the following share repurchases:

	Class A Shares		Class B Shares		Total
	Number	Amount	Number	Amount	Amount
Bid ended September 15, 1999					
Purchased in 1999	72,700	$ 1,388,803	198,300	$ 4,082,550	$ 5,471,353
Purchased in 2000	63,300	1,281,945	133,100	2,827,350	4,109,295
Cancelled, October 25, 1999	(136,000)	(2,670,748)	(331,400)	(6,909,900)	(9,580,648)
	—	$ —	—	$ —	$ —
Bid commencing on October 15, 1999					
Purchased during 2000 being the balance, January 31, 2000	34,700	$ 695,813	121,300	$ 2,639,885	$ 3,335,698

The share cancellation on October 25, 1999 resulted in a charge to retained earnings of $8,345,305 and a reduction in Class A Shares and Class B Shares of $902,015 and $333,328, respectively, being the average issue price of the cancelled shares.

Under the Normal Course Issuer Bid commencing on October 15, 1999 and ending on October 14, 2000 the Company may purchase up to 150,000 Class A Shares and 350,000 Class B Shares.

9. **Related party transactions**
The Company entered into transactions with related parties as summarized below:

	2000	1999	1998
Exploration and development expenditures charged by companies over which a director of the Company has significant influence	$ 3,374,022	$ 2,673,755	$ 2,604,999
Professional fees paid to two directors and an officer of the Company	$ —	$ 281,370	$ 218,750

10. **Subsequent events**
Subsequent to January 31, 2000:

a) The Company granted options to an employee to purchase 50,000 Class A shares at a price of $17.77 per share, exercisable to March 3, 2010.
b) The shares referred to in notes 3 and 8(c) were issued.
c) The Company repurchased an additional 79,000 Class B shares for $1,594,080 including brokerage fees, under the Normal Course Issuer Bid.

11. **Differences between Canadian and United States generally accepted accounting principles (GAAP)**

a) **Temporary investments**
In accordance with Statement of Financial Accounting Standards No. 115, the Company's temporary investments would be classified as available for sale. Thus, the unrealized holding loss of $1,112,293 included in net earnings for the year ended January 31, 2000 under Canadian GAAP would be excluded from net earnings and shown as a separate component of shareholders' equity for United States GAAP.

As well, unrealized holding gains of $703,894 and $950,429 would be recognized as an increase in temporary investments and shown as a separate component of shareholders' equity as at January 31, 2000 and January 31, 1999, respectively. The net unrealized holding gain (loss) that would be disclosed in shareholders' equity is: 2000 - ($408,399); 1999 - $950,429.

b) **Mineral properties**
In accordance with United States GAAP, the Company would be required to charge all costs of mineral properties exploration to earnings as incurred until proven economic reserves are established. As a result

of accounting for these expenditures in this manner, mineral properties would be NIL at January 31, 2000 and January 31, 1999. The amounts expensed would be $9,618,463 during the year ended January 31, 2000, $6,585,675 during the year ended January 31, 1999 and $5,625,185 during the year ended January 31, 1998. These amounts would reduce net earnings in the respective years.

c) **Net earnings (loss)**

The following table provides a reconciliation of the net earnings (loss) determined under Canadian GAAP with the net earnings (loss) determined under United States GAAP:

	2000	1999	1998
Net earnings (loss) determined under Canadian GAAP	$ 47,499,926	$ (6,454,417)	$ (2,806,927)
Unrealized loss on temporary investments	1,112,293	—	—
Mineral properties expense	(9,618,463)	(6,585,675)	(5,625,185)
Cost of programs abandoned	—	2,047,792	1,707,041
Discount amortization of previous write down of temporary investments to market	—	848	(15,154)
Future income taxes recovered	12,135,074	—	—
Net earnings (loss) determined under United States GAAP	$ 51,128,830	$ (10,991,452)	$ (6,740,225)

d) **Comprehensive income (loss)**

	2000	1999	1998
Comprehensive income (loss):			
Net earnings (loss)	$ 51,128,830	$ (10,991,452)	$ (6,740,225)
Unrealized gain (loss) on temporary investments	(408,399)	950,429	1,767,328
	$ 50,720,431	$ (10,041,023)	$ (4,972,897)

e) **Shareholders' equity**

	2000	1999	1998
Total shareholders' equity determined under Canadian GAAP	$ 96,328,361	$ 51,922,829	$ 59,984,018
Mineral properties	(27,139,925)	(17,521,462)	(12,983,579)
Unrealized gain on temporary investments	703,894	950,429	1,767,328
Discount amortization of previous write down of temporary investments to market	—	848	(15,154)
Future income taxes	12,135,074	—	—
Total shareholders' equity determined under United States GAAP	$ 82,027,404	$ 35,352,644	$ 48,752,613

f) **Net earnings (loss) per share**

Net earnings (loss) per share would be as follows under United States GAAP:

	2000	1999	1998
Net earnings (loss) per share, basic	$ 1.68	$ (0.36)	$ (0.23)
Net earnings per share, diluted	$ 1.65	$ (0.36)	$ (0.23)

For United States GAAP purposes, the Company has adopted Statement of Financial Accounting Standards No. 128.

g) **Total assets**

	2000	1999	1998
Total assets determined under Canadian GAAP	$ 327,973,003	$ 329,744,004	$ 233,816,888
Mineral properties	(27,139,925)	(17,521,462)	(12,983,579)
Unrealized gain on temporary investments	703,894	950,429	1,767,328
Discount amortization of previous write down of temporary investments to market	—	848	(15,154)
Total assets determined under United States GAAP	$ 301,536,972	$ 313,173,819	$ 222,585,483

12. **Uncertainty due to the Year 2000 Issue**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company, including those related to customers, suppliers, business partners, or other third parties, have been fully resolved.

Statement of Corporate Governance Practices

The following table sets out the fourteen guidelines from the Toronto Stock Exchange Company Manual, Section 474

TSE Governance Guidelines	Does the Company Align with the Guidelines?	Comments
1. The Board should explicitly assume responsibility for stewardship of the corporation Specifically the Board should assume responsibility for:	Yes	The Board of Directors of the Company believes that sound corporate governance practices are essential to the well being of the Company and its shareholders, and that these practices should be reviewed regularly to ensure that they are appropriate. The mandate of the Board of Directors is to supervise the management of the business and affairs of the Company and to act with a view to the best interests of the Company. The frequency of meetings as well as the nature of agenda items changes depending upon the state of the Company's affairs, on-going developments with respect to the NWT project, active and proposed exploration projects, and in light of opportunities or risks, which the Company faces. The Board met four times in 1999 and also held a number of informal communications and meetings during the year.
a) Adoption of a strategic planning process	Yes	The Board has assumed responsibility for developing long-term goals and strategies. These goals and strategies are being prepared and reviewed by management with the Board.
b) Identification of principal risks and implementing risk management systems	Yes	The Audit Committee and the Board periodically assess the Company's principal risks. Senior management and the Audit Committee regularly review the Company's system of internal controls.
c) Succession planning	Yes	The Compensation Committee reviews training programs and has been actively implementing succession plans.
Monitoring senior management	Yes	The Compensation Committee reviews executive performance at least annually. The Compensation Committee and the Board monitor the performance of the Chief Executive Officer and executive management and assess that performance on an ongoing basis against performance expectations.
d) Communications policy	Yes	The Company encourages investor inquiries and responds promptly to all information requests.
e) Integrity of internal controls and management information systems	Yes	The Audit Committee and the Board review the adequacy and integrity of internal controls and the management information system on a quarterly basis.
2. Majority of directors should be "unrelated" (independent of management and free from conflicting interests)	Yes	The Board of Directors is composed of eight members. Six directors are "unrelated directors" and two are "related directors", within the meaning of the TSE Report. Accordingly, the Board of Directors is constituted with a majority of individuals who qualify as "unrelated directors" within the meaning of the TSE Report. Mr. Peter Y. Atkinson is non-executive interim Chairman of the Board of Directors. Mr. James E. Eccott is President and Chief Executive Officer of the Company and serves as a director.
3. Disclosure for each director whether he is related, and the analysis to reach that conclusion	Yes	In deciding whether a particular director is "related" or "unrelated", the Board examined the factual circumstances of each director and considered them in the context of a number of relevant factors.
4. Appoint a committee responsible for appointment/assessment of directors, composed of a majority of unrelated directors	Yes	The Corporate Governance Committee is responsible for reporting to the Board with respect to appropriate candidates for nomination to the Board.
5. Implement a process for assessing the effectiveness of the Board, its committees and individual directors	Yes	The Corporate Governance Committee will monitor and report to the Board concerning the effectiveness of the Board's operations.
6. Provide orientation and education programs for new directors	Yes	While no documented orientation and education programs are in place, past appointments of new directors have occurred relatively infrequently, allowing the existing Board members and the Chief Executive Officer to provide orientation and education to new directors as needed. Prior to official appointment, new directors are provided consider-

		able orientation and education about the Company and the industry. The Board is presently considering implementing an orientation and education program for new directors.
7. Examine the size of the Board, with a view to improving effectiveness	Yes	An appropriate number of Board members presenting a diversity of views and business experience must be elected to ensure the Board functions effectively. The Board reviews its size and effectiveness relative to other Canadian public companies on an ongoing basis. The Board is presently considering its size, makeup and effectiveness of representation in light of recent Company developments.
8. Review adequacy and form of compensation of directors to realistically reflect responsibilities involved in being an effective director	Yes	The Compensation Committee makes recommendations to the Board on, among other things, the compensation of senior executives and the option plan for directors and officers.
9. Committees should generally be composed of non-management directors, a majority of whom should be unrelated	Yes	The Board of Directors has four committees: the Audit Committee, the Compensation Committee, the Corporate Governance Committee and the Environmental and Safety Committee. In April 1996, the Audit Committee was reconstituted and is now composed entirely of unrelated directors. The Audit Committee met four times in 1999. The Members are Messrs. Atkinson, Christofferson and Poling. The Compensation Committee is composed entirely of unrelated directors. It met twice in 1999. Its members are Messrs. Atkinson, Christofferson and Poling. The Corporate Governance Committee was appointed in April 1996. It is composed of two unrelated directors and one related director. No formal meetings were held in 1999. Its members are Messrs. Atkinson, Eccott and Mackenzie. The Environmental and Safety Committee of the Board is responsible for reviewing environmental and safety issues related to any ongoing exploration and development work in which the Company is involved. It was appointed in April 1996. No formal meetings were held in 1999. It is composed of two unrelated directors and one related director. Its members are Messrs. Fipke, Mackenzie and Poling.
10. Appoint a committee responsible for the Company's approach to corporate governance issues	Yes	The Corporate Governance Committee of the Board is responsible for making recommendations to the full Board with respect to developments in the area of corporate governance and the practices of the Board.
11. Develop position descriptions for the Board and Chief Executive Officers	No	The Board has a broad responsibility for supervising the management of the business and affairs of the Company and as such has no specific or narrow position description of the Board. The broad responsibility is reflected in the Board's mandate. The President and Chief Executive Officer's annual performance objectives, which are reviewed by the Board, constitute his mandate and define the responsibilities of management.
Board should approve Chief Executive Officer's corporate objectives	Yes	The Board will review the performance of the Chief Executive Officer against such annual objectives.
12. Establish structures and procedures to ensure that the Board can function independently of management	Yes	The Board and its Audit and Corporate Governance Committees are responsible for putting structures and processes in place to ensure the Board can function independently. The Board periodically holds a session without management present at Board meetings. The independence of the Board is further enabled through the separation of the positions of Chairman and Chief Executive Officer.
13. Establish an Audit Committee, composed of non-management directors, with a specifically defined set of roles and responsibilities and with direct communication channels with internal and external auditors.	Yes	The Audit Committee is responsible for reviewing the Company's financial reporting procedures, internal controls and the performance of the Company's external auditors. The Committee is also responsible for reviewing quarterly financial statements and the annual financial statements prior to their approval by the full Board of Directors.
14. Implement a system to enable individual directors to engage outside advisers, at the corporation's expense.	Yes	Individual directors can engage outside advisors with the authorization of the appropriate committee.

Shareholder Information

Shares traded on two international stock exchanges

Toronto Stock Exchange
American Stock Exchange

Ticker Symbols

DMM.A
DMM.B

Index Listings

TSE 300 Index
TSE Gold & Precious Minerals Index

Common Shares

Outstanding at 31 January, 2000

	Class A	Class B
	8,594,074	21,642,096

Fully Diluted

	Class A	Class B
	10,929,874	22,142,096

Volume of Shares Traded

1999	Class A	Class B
TSE	3,212,891	4,140,343
AMEX	193,000	289,800

Closing Price of Shares

31-Jan-00	Class A	Class B
TSE	$ 18.10 Cdn	$ 21.25 Cdn
AMEX	$ 12 5/8 US	$ 14 7/8 US

Share Trading Information
Toronto Stock Exchange ($ Cdn)

Quarter 1999	Share Volume Class A	High	Low	Share Volume Class B	High	Low
Q1	755,667	20.00	14.50	817,745	24.50	19.25
Q2	1,298,472	23.00	18.25	1,275,566	26.00	22.50
Q3	636,365	23.75	21.00	666,811	26.50	19.80
Q4	522,387	21.10	16.75	1,380,221	22.45	16.75
	3,212,891			4,140,343		

Share Trading Information
American Stock Exchange ($ US)

Quarter 1999	Share Volume Class A	High	Low	Share Volume Class B	High	Low
Q1	53,200	13	9 3/4	73,100	14 1/2	11 1/4
Q2	62,500	15 7/8	12 5/8	62,200	17 5/8	14 1/16
Q3	49,300	15 7/8	14 1/16	69,800	17 9/16	15 3/8
Q4	28,000	14 3/8	12	84,700	16 5/32	13 5/8
	193,000			289,800		

Recent Research Reports

Firm	Analyst	Phone	Date of Report
Bunting Warburg	Brian MacArthur	(416) 350-2229	January 11, 2000
Canaccord Capital	David James	(204) 988-9602	April 4, 2000
National Bank Financial	John Lydall	(416) 869-6663	May 3, 2000
Newcrest Capital	David Davidson	(416) 863-2332	May 3, 2000
Merrill Lynch	Michael Curran	(416) 369-2225	May 3, 2000
RBC Dominion Securities	John Barker	(44) 207 653-4600	May 4, 2000
Goepel McDermid Securities	Rob Klassen	(604) 659-8285	May 4, 2000
BMO Nesbitt Burns	Steven Butler	(416) 359-6199	May 4, 2000
Deutsche Bank Securities	George Albino	(416) 682-8177	May 18, 2000

Corporate Directory

BOARD OF DIRECTORS

Peter Y. Atkinson (1) (2) (3)
Chairman of the Board and Director

Robert S. Anderson
Director

Keith A. Christofferson (1) (2)
Director

James E. Eccott (3)
President, Chief Executive Officer and Director

Charles E. Fipke (4)
Honorary Chairman and Director

Robert N. Hickman
Director

David W. G. Mackenzie (3) (4)
Director

Dr. George W. Poling (1) (2) (4)
Director

James R. Rothwell
Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee
(4) Member of the Environmental and Safety Committee

OFFICERS

James E. Eccott (3)
President, Chief Executive Officer and Director

Raymond M. Ashley
Vice President of Exploration

Gerald D. Prosalendis
Vice President of Corporate Development

Christopher J. Ryder
Corporate Secretary

CORPORATE OFFICE

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Barristers and Solicitors
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AUDITORS

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V1Y 9G4

BANKERS

Royal Bank of Canada
510 Bernard Avenue
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V1Y 7N9

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company
510 Burrard Street
Vancouver, B.C., Canada
V6C 3B9

8th Floor - 151 Front Street
Toronto, ON, Canada
M5J 2N1

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange
Symbol DMM.A and DMM.B

American Stock Exchange
Symbol DMM.A and DMM.B

Cautionary Note

Some of the statements contained in this annual report are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements by reason of factors such as the overall productivity of the Ekati™ Diamond Mine and the marketability of diamonds produced by the mine. Changes in general economic conditions and conditions in the financial markets, changes in demand and prices for diamonds and competition from other diamond producers could also have an impact on actual results. Results could also be affected by legislative, regulatory and political developments relating to environmental, aboriginal, tax, competition and other matters both in Canada and other areas in which the Company operates, and by litigation and labour relations issues affecting the Company.

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